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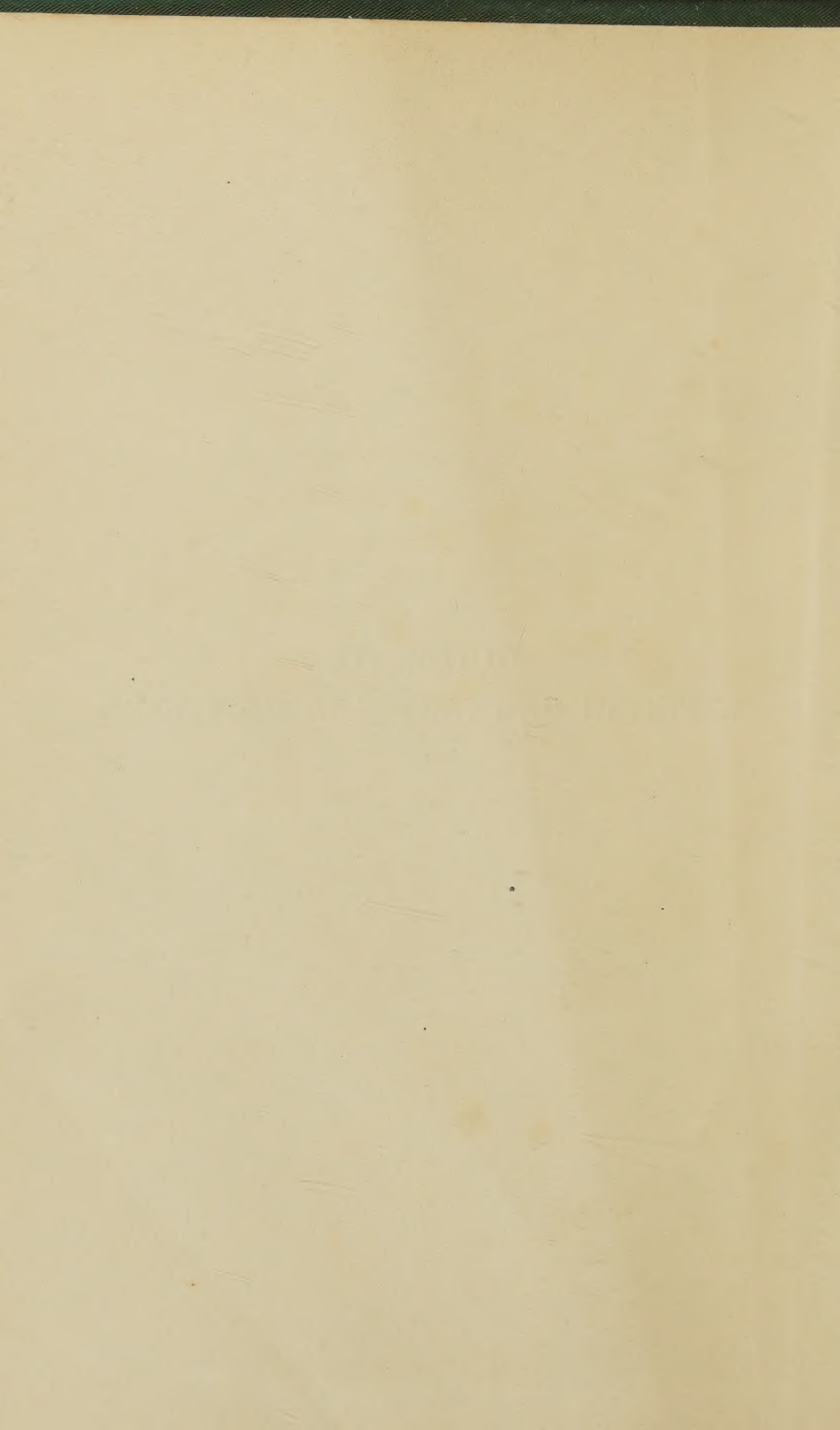
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GUIDE TO
SCOTTISH BANKERS' EXAMINATIONS



GUIDE TO Scottish Bankers' Examinations

CONTAINING FULL INFORMATION REGARDING THE EXAMINATIONS
OF THE INSTITUTE OF BANKERS IN SCOTLAND, ADVICE AS
TO STUDY, NOTES ON THE SUBJECTS, AND ANSWERS
TO FIVE YEARS' PAPERS (COMPRISING
450 MODEL SOLUTIONS)

BY

WM. CHAS. METHERELL

(Member Inst. Bank. Scot.)

and

GEO. MACKENZIE

(Honours' Member Inst. Bank. Scot.)

EDINBURGH

ANDREW BAXENDINE

15 CHAMBERS STREET

1910

P R E F A C E

THE primary object of the authors has been to perform for aspirants to the Degrees of the Institute of Bankers in Scotland a service similar to that which has frequently been rendered to candidates in connection with the Examinations of similar Societies, by providing an introduction to the papers set as tests, furnishing advice as to the course of study, and supplying practical guidance to students.

The scheme includes : a *résumé* of the history, achievements and present position of the Institute ; descriptive criticisms of the Subjects of Examination ; notices of Text-books ; information regarding all points calling for the attention of intending candidates ; and Model Solutions to the questions set in recent years. The last-named feature in particular will, it is hoped, afford valuable assistance to students, and earn for the work a place, not only as a " Guide " to the wide range of the Examinations and the large number of Text-books in connection with the Subjects, but also as being itself an eminently useful aid to successful study.

It is believed, too, that Bankmen who are not candidates for the Examinations will find these Answers not lacking in interest.

W. C. M.
G. M.

September 1910.

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1906-1910 inclusive

(*School Subjects of Associates' Exam.—Notes and Papers*
for 1910)

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Guide to Scottish Bankers' Examinations

INTRODUCTORY

THE writers have found in their experience—both as students and as tutors in connection with these examinations—that a study of the Papers set in previous years is of the utmost importance. In no other way than by acquainting himself with the requirements of the examiners can a candidate be enabled to contemplate with confidence his attempting to answer “unseen” papers.

In the present “GUIDE” there are made accessible in compact form the papers of recent years, and the opportunity is thus afforded to students of determining for themselves the nature and the scope of the examinations : to the questions are appended full model answers, from a careful study of which the candidate will derive no little benefit : and students are further guided as to methods of study, being informed in particular as to the books which they should read (incidentally also as to those which may safely be ignored) and counselled as to how they may pursue their studies to the best advantage.

Similar service has been rendered to competitors entering for most well-known examinations—*e.g.* University Preliminary and Law Examinations ; and it is with the hope of meeting a felt want in this direction in respect of the Examinations of the Institute of Bankers in Scotland that the issue of the present work has been undertaken.

THE INSTITUTE OF BANKERS IN SCOTLAND

THE Institute of Bankers in Scotland is the oldest of all such Institutes in existence, at home or abroad. It dates from 6th July 1875, and was the outcome of a movement which was inaugurated by members of an Edinburgh society, founded in 1860, styled the Scottish Bankers' Literary Association. Mr A. W. Kerr, in his "History of Banking in Scotland," devotes a brief chapter to the history of the Institute; and there appeared in the first number of *The Scottish Bankers Magazine* (April 1909) a very interesting article on the subject from the pen of the present secretary, Mr William Baird. Few of the original office-bearers and members of council are now in active service. Mr H. A. Hotson framed the constitution, and Mr A. W. Kerr was the first secretary. The new society received influential support from the managers of the Scottish banks, and after some years of difficulty it has attained to a position of the highest success and usefulness as an educational institution. The membership is now 2283, and year by year the numbers are increasing.

The following are the provisions of the constitution relating to admission to the roll of the Institute, etc. :—

The object of the Institute shall be to improve the qualifications of those engaged in Banking, and to raise their status and influence.

This object shall be promoted by encouragement and aid offered to the younger men connected with the various Banks in the prosecution of their professional studies, and in their general intellectual improvement; in particular, by Classes, Lectures and Bursaries; by the formation of Libraries of Standard Works on Finance and kindred subjects; by Examinations on such subjects as may be thought suitable; by the issuing of Certificates to such as pass the Examinations; and, generally, by any other means suited to attain the aforementioned object.

The Institute shall consist of Members and Associates, who shall be at the time of their admission, or shall have been formerly, connected with the banks in Scotland.

The Membership shall be composed of :

1. Those who have been elected by the Provisional Committee at the formation of the Institute.
2. Those who have passed the Higher Examination to be

appointed by the Council, having previously passed the Examinations prescribed for admission as Associates, or been admitted as Associates as after provided.

3. Those who, on account of their official position in any of the Banks, or their attainments otherwise, may be elected by the Council without examination.

The Associates shall be—

1. Those who, prior to 1st June 1878, shall apply for admission, having been at the date of their application ten years or upwards in the service of any of the Banks.
2. Those who shall have passed such Examinations as may be appointed by the Council.
3. Those who, having taken the degree of M.A. or B.A. at any university in the United Kingdom, shall make application for admission.

The headquarters of the Institute are at 62 George Street, Edinburgh, and the Glasgow rooms are at 218 St Vincent Street. At both places there are libraries, reading rooms and other facilities, and in connection with each there is a flourishing literary society. There are provincial centres at Aberdeen, Dumfries, Dundee, Galashiels, Greenock, Inverness, Lerwick, Perth and Wick; at these places there are small but well-selected libraries of such books as are necessary in preparing for the examinations. The General Secretary and the local secretaries are always ready to advise intending candidates.

By arrangement with the Institute of Bankers, London, members of the Scottish Institute resident there may avail themselves of similar privileges, on making application to the secretary.

Through the enterprise of the Institute valuable money prizes have been yearly awarded to encourage essay competitions, and in the cities regular courses of lectures by authorities on legal and financial subjects have been delivered in the winter months. Many of these essays and lectures have subsequently been published; and the following list given by Mr Baird of works issued under the auspices of the Institute is of interest as showing how much has been done to help students in their efforts at improvement:—

Andrew W. Kerr's "*History of Banking in Scotland*"; William Graham's "*One-Pound Note in Scotland*"; Professor Nicholson's "*Bankers' Money*"; N. B. Gunn's "*Stock Exchange Securities*"; William Shaw's "*Securities over Moveables*"; Allan M'Neil's "*Bills of Exchange, Cheques, and Promissory Notes*," and "*Banking Law*" by the same

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author ; H. P. Macmillan's " Law of Joint Stock Companies " ; William Baird's " One-Pound Note, Its Place and Power " ; David M'Kie's " Bank Book-keeping " ; and A. Laurie's " Interest and Charges."

Reference has been made to *The Scottish Bankers Magazine*. The Institute has recently undertaken the issue of this quarterly publication, and during its short existence it has been maintained at a very high level of excellence. Articles on all matters of interest to Scottish bankers are welcomed by the editor of the magazine, and there have appeared excellent papers on various subjects—biographical, historical, financial, educational and literary—a careful perusal of which will be found helpful to every candidate. The magazine is issued *gratis* to Members and Associates.

The chief function performed by the Institute, however, is the conducting of annual examinations for the admission of candidates to the degrees of Associate and Member.

This branch of the Council's activities has grown to very considerable proportions, and in 1910 no fewer than 1025 candidates presented themselves for examination. Steady progress has been made since 1890, when the banks agreed to give prizes to such members of their staffs as should pass the examinations—viz. £5 to those passing for the degree of Associate, and £10 to Members.

At this time of day it is not necessary to enlarge on the value of possession of these degrees. It is incontrovertible that the banker who has studied for these examinations and won his Member's certificate has made an advance in knowledge, subjected his mind to useful discipline, acquired a certain training in the virtue of " thoroughness," and placed himself in the position of being better able to turn to account any opportunities in the direction of further progress that may be granted him.

The following remarks of Mr Bogie, President of the Institute, in his 1908 address are worthy of attention :—

" I believe that the raising of our status and influence depends not upon the increase of emoluments—however gratifying, however desirable, in some cases, alas ! however necessary, but upon the right application of knowledge acquired by study and by work. The weakness which this Institute has to struggle against is the partial and temporary use of that knowledge gained by many of those who connect themselves with the Institute for the purpose of passing the examinations. The mere passing of these examinations is, I fear, the only use to which such knowledge is put, whereas after examinations are successfully passed the true use of the knowledge acquired for

the degree really commences, as it is the chief factor in inducing a permanent and intelligent interest in the well-being and progress of our great and ancient trade.

“Never in the history of Banking has there been such necessity for knowledge not merely of that technical description which is associated with its practical details, but of that scientific quality which is perfected by study and reflection.”

There is the oft-repeated grievance that the banks do not suitably recognise possession of the degrees. It must always be borne in mind that promotion not infrequently follows from other considerations than the ability to pass an examination. Seniority, experience, manner and address, tact, courtesy, a willingness to undertake any duty, combined with common-sense and other elements of character, must be taken into account, as well as a theoretical knowledge of banking.

It is to be hoped that no disparagement of the work of the Institute will deter any bank man from seizing the opportunity afforded him by means of these examinations of showing that he has the determination and the ability to pass: the personal gain derived from study is undoubted; and there is good reason to believe that the banks are not at all so indifferent in the matter as some grumblers would have us suppose.

There is the further consideration that possession of the Institute's diploma is a valuable asset to those who intend to enter the service of Colonial and Foreign Banks.

SYLLABUS OF EXAMINATIONS

THE Council of the Institute of Bankers in Scotland begs to intimate that, till further notice, examinations for the admission of Members and Associates will be held towards the end of March of each year, and will be conducted simultaneously in Edinburgh, Glasgow, London, Aberdeen, Inverness, Dundee, Galashiels, Greenock, Dumfries, Lerwick and Wick.

The examinations will be conducted in writing, but the examiners may in addition examine candidates orally, if they deem it necessary to do so. In Arithmetic and Algebra the full working of all answers and questions must be given.

The following conditions must be fulfilled to entitle a candidate to pass—viz.

1. The whole value of his answers to the whole questions proposed (*i.e.* the questions on all the subjects) must be not less than sixty per cent. of the value of the questions.
2. The value of his answers in each subject must be not less than the percentage specified below.
3. The quality of the penmanship will be taken into consideration in awarding the marks.

The examinations will extend over two days, and candidates will not be allowed to spread the work in any one subject, wholly or partially, over two days. When oral examination is desired, it shall take place at a subsequent time, to be intimated to the candidate.

The time for passing the examinations is limited to *two* consecutive years for the degree of Associate, and to *two* consecutive years for the degree of Member. Candidates for "Honours" cannot enter for any of the subjects until the completion of the Member's examination. The two following years are allowed for the "Honours" subjects.

Candidates cannot enter for the Membership examination until they have become Associates.

Notice must be sent to the secretary, specifying the place where, and the degree in which, the candidate wishes to be examined, not less than ten days previous to the day of examination, of which due intimation will be given by circular; and such notice will be required on each occasion, whether the candidate has previously appeared for examination or not. The intimation must be accompanied with an entrance fee of 2s. 6d.

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Certificates will be granted to those who pass the Members' examination, and a prize will be given to the most successful candidate in each of the three degrees.

In order to assist the students in the choice of books for study, a list is subjoined of some of the best works bearing on the subjects of examination.

The following are the subjects on which candidates will be examined, with the number of questions which will be given on each, and the minimum percentage value of answers necessary to enable a candidate to pass :—

I. FOR ADMISSION AS ASSOCIATES

First Day—

	Time of Examination	No. of Questions	Minimum Percentage
ARITHMETIC	10 A.M. to 1 P.M.	6	60
ALGEBRA (up to and including Quadratic Equations)			
GEOGRAPHY	2 P.M. to 4.30 P.M.	6	50
ENGLISH COMPOSITION			

Second Day—

BOOK-KEEPING AND BANK-BOOKS	From 10 A.M. to 1 P.M.	6	60
EXCHANGE AND CLEARING-HOUSE SYSTEM AND RULES			
NOTE CIRCULATION			
INTEREST AND CHARGES	From 2 P.M. to 4.30 P.M.	6	50
NEGOTIATION OF BILLS AND CHEQUES			
HISTORY AND PRESENT POSITION OF BANKING IN SCOTLAND			

2. FOR ADMISSION AS MEMBERS

First Day—

	Time of Examination	No. of Questions	Minimum Percentage
PRINCIPLES OF ECONOMICS, STOCKS AND STOCK EXCHANGE TRANSACTIONS	From 10 A.M. to 1 P.M.	5	50
	From 2 P.M. to 4.30 P.M.	5	60
HISTORY AND PRINCIPLES OF BANKING AND CURRENCY	From 10 A.M. to 1 P.M.	5	60
	From 2 P.M. to 4.30 P.M.	5	50
THEORY AND PRACTICE OF THE FOREIGN EXCHANGES	From 10 A.M. to 1 P.M.	5	60

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Second Day—

	Time of Examination	No. of Questions	Minimum Percentage
PRINCIPLES OF SCOTS LAW	From		
AND CONVEYANCING . . .	10 A.M.	5	50
LAW OF BANKRUPTCY . . .	to	5	40
MERCANTILE LAW . . .	1 P.M.	5	50
LAW OF BILLS, CHEQUES, AND DEPOSIT-RECEIPTS .	From	5	50
PRACTICAL BANKING—	2 P.M.		
Correspondence . . .	to	4	50
Branch Supervision . . .	4.30 P.M.	5	
Advances		5	

Candidates for Membership, desirous of passing with "Honours," may secure this distinction by passing in the following subjects, in addition to those requisite for ordinary Membership. The examinations in modern languages will include both translation and grammar, and candidates will be required not only to show proficiency in translating into English, but also from English into French or German.

First Day—

MODERN LANGUAGES (French or German)	{ 10 A.M. to 1 P.M. }	4	60
BRITISH HISTORY	{ 2 P.M. to 4.30 P.M. }	6	60

Second Day—

BRITISH CONSTITUTION AND GOVERNMENT	{ 10 A.M. to 1 P.M. }	5	60
ENGLISH LITERATURE	{ 2 P.M. to 5.30 P.M. }	5	60
OUTLINES OF GENERAL HISTORY		4	60

There will be an interval of an hour, from 1 to 2 P.M., on each day of the examinations.

WORKS RECOMMENDED BY THE COUNCIL

TO THE

ATTENTION OF STUDENTS PREPARING FOR THE EXAMINATIONS

ARITHMETIC . . .	{	Workman's School Arithmetic (3s. 6d.). Pendlebury's Arithmetic (4s. 6d.). Arithmetic for Bankers—David M'Kie, 1908 (2s.).
ALGEBRA . . .	{	Hall & Knight's Algebra (4s. 6d.).
BOOK-KEEPING . .	{	Chambers's Book-keeping by Double and Single Entry by Inglis (1s. 6d.). Longman's Studies (3s. 6d.). Bank Book-keeping and Accounting—D. M'Kie (2s. 6d.).
BRITISH CONSTITUTION AND GOVERNMENT	{	Student's Edition of Hallam's Constitutional History (7s. 6d.).
BRITISH HISTORY .	{	M'Carthy's Short History of our Times, 1 vol. (2s. 6d.). Ed. Green's History of the English People (8s. 6d.).
GENERAL HISTORY	{	Myer's Short History of Mediæval and Modern Times (4s. 6d.). Sanderson's Concise History of the World (5s.).
GEOGRAPHY . . .	{	Longman's School Geography, by Chisholm (3s. 6d.). Mill's Commercial Geography (1s. 6d.).
ENGLISH COMPOSITION AND LITERATURE	{	Brooke's Primer (1s.). Rosaline Masson's Use and Abuse of English (1s.). Logie Robertson's English Literature (3s.).
POLITICAL ECONOMY	{	Prof. Nicholson's Elements of Political Economy (7s. 6d.). Mrs Fawcett's Political Economy for Beginners (2s. 6d.).
FOREIGN EXCHANGES	{	Göschel's Theory of Foreign Exchanges (6s.). Clare's A B C of the Foreign Exchanges (3s.). Notes on English and Foreign Banking, Currency Systems, and Foreign Exchanges (2s. 6d.).
PRINCIPLES AND PRACTICE OF BANKING AND CURRENCY . . .	{	Gilbart's Principles of Banking (10s.). Moxon's English Practical Banking (4s. 6d.). Questions on Banking Practice (10s. 6d.). Rae's Country Banker (2s. 6d.). W. A. Scott's Money and Banking. (10s.).
STOCKS AND STOCK EXCHANGES .	{	Melzheimer's Law and Customs of the Stock Exchange (7s. 6d.). See Article in <i>Bankers' Magazine</i> , Vol. 59, 1895. Gunn's Stock Exchange Securities (2s. 6d.).
HISTORY AND PRESENT POSITION OF BANKING . . .	{	Gilbart's History of Banking (10s.). Kerr's History of Banking in Scotland (5s.). Kerr's Scottish Banking (5s.). The One-Pound Note, William Baird (1s.). Graham's Bank Note Circulation of Scotland (1s.). <i>Bankers' Magazine</i> . M'Kie's Clearing, Interest, and Charges, 1906 (2s.). Laurie's Interest and Charges (1s. 9d.). Hunter's Guide to Interest and Charges, 1906 (2s.).

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SCOTS LAW AND CONVEYANCING : MERCANTILE LAW : LAW OF BILLS, CHEQUES, AND RECEIPTS : BANKRUPTCY LAW	{ Lorimer's Handbook of the Law of Scotland (10s.). M'Neil's Bills of Exchange, Cheques, and Promissory Notes, 1904 (2s. 6d.). Goudy on Bankruptcy (36s.). Craigie's Digest of the Law of Conveyancing—Moveable Rights (18s.). Vary Campbell's Principles of Mercantile Law (12s.). M'Neil and Wallace's Banking Law (15s.). Robertson's Bankers' Law (New Edition, 1901) (5s.). Macmillan's Law of Joint Stock Companies (3s. 6d.).
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(NOTE.—Many of the above books may be obtained more cheaply. It is not necessary, of course, that all these text-books should be purchased, or even read. See under the notes on the various subjects.)

ON QUESTIONS

As a rule, in examinations such as these, the nature of the papers set from year to year shows no great diversity ; and this for the very good reason that the value of a diploma awarded on the strength of having passed an examination should not fluctuate, but should be of a uniform character. To lower the standard of such examinations would be unfair to those previously admitted, while the raising of the standard would place new aspirants at a certain disadvantage. It is obvious that the examinations of the Bankers' Institute are in this respect on quite a different footing from those, for instance, of the Civil Service, which are conducted not on a *standard* but on a *competitive* basis.

There is necessarily, therefore, a want of "originality" evidenced if we look over a series of years—more apparent in some subjects than in others ; but, provided that the subjects themselves are well designed, it is no valid objection to the merits of the examinations that the questions in some cases show a lack of variety. It is doubtful how far the advocacy of "reform" is justified, at any rate so far as it is based on a desire for merely *new* departures. After all, in examinations such as these questions should be set not on points of infinitesimally small value culled from obscure portions of text-books, and on incidents of uncommon occurrence, but they should primarily be a test of knowledge of important matters, and subjects of every-day utility. There should be nothing in these papers to suggest that the examiner intended to *puzzle* the candidate, but rather such questions should be set as will afford a candidate an opportunity of showing that he possesses a knowledge of essentials. And this, as a rule, is the character of the papers set for the Institute examinations.

The student will therefore find a study of the questions that have been set in former years of material assistance to securing success. We have reproduced those for years 1906 to 1910 inclusive, so that from a glance at the series it will be seen exactly what is expected of a candidate in any particular subject ; and not the least advantage accruing from such a collection is that from comparison may be deduced the topics which bulk most largely in the minds of the examiners—and the persistent reappearance of these should serve as a guide to the student as to his course of study.

ON ANSWERS

IN the main, the answers appended are confined strictly to the limits and requirements of the questions. Occasionally (and these instances will be obvious to the reader) an answer has, for the sake of completeness, been expanded somewhat. On the whole, however, the aim has been to supply *model* answers, and to convey accurate information in a suitable manner, which may, it is believed, safely be followed by students.

It is necessary to emphasise the importance of a good style of composition, and also the value of the manner as well as the matter of an answer. About the precise form which answers should take there may be differences of opinion, and the requirements of examiners may, and indeed often do, vary considerably. As a rule, however, the form of the question will supply a clue to the appropriate framing of the answer.

It is politic—not to say respectful—to submit one's answers to the examiner in an attractive form. An examiner will naturally resent slovenliness, as he has many papers to consider, and his task is an exacting one. The introduction of irrelevant matter, too, must be extremely annoying. It is well to bear in mind, however, that a correct style must not be sacrificed even to conciseness, and that a disregard of the rules of English grammar may be responsible for failure in any subject.

Unfortunately, on the examination day candidates are liable to feel that they are pressed for want of time, so that they are tempted to hand in a scrappy mess of "answers" hurriedly strung together, which, instead of elucidating the matter, really represent *problems* to the gentlemen who deal with them! There is good reason to believe that their method of dealing with such problems is short and sharp.

Candidates, on the other hand, who study to express their knowledge in an intelligent and business-like fashion will be rewarded for their pains, and those who pay careful attention to the arrangement as well as to the accuracy of their answers cannot fail to benefit. It is hoped that the solutions now supplied will be found of assistance in this direction.

In some cases (*e.g.* in Book-keeping, Foreign Exchanges and Scots Law), where certain definitions are asked for with un-failing regularity, the answers have been framed with a distinct view to their being memorized.

Practical Banking is probably the *bête noire* of most candidates for Membership, as it bears on matters regarding which it is

outwith the power of many candidates to make themselves thoroughly conversant. The answers in this subject are of interest apart from examinations altogether, and may be not unserviceable to bank men generally. By the student these answers will be found particularly helpful, because they afford him assistance on subjects which he will not find dealt with in his text-books. They convey information, indeed, which is frequently beyond the reach of country students.

Out of consideration for the fact that to supply solutions in the school subjects of the Associates' Examination would greatly increase the size of this book, without adding proportionately to its value, it has been deemed advisable to give only the questions for 1910—in order to indicate their scope—along with hints as to useful text-books.

The "Honours" examination has not been included in the scheme, as the course of study for candidates must depend entirely on the previous stage of education attained in each case.

ON TEXT-BOOKS

THE difficulty experienced by students in getting started to work—this applies more especially to these who are at some distance from classes and libraries, and even, mayhap, from advice—is in connection with the books that are to be studied ; and this by reason not of the scarcity of text-books, but of their very considerable number.

The Council of the Institute prepare a list of works which they commend to the attention of students, and this affords candidates great assistance. It must be added, however, that some of these books are not essential, the same ground being covered by others, so that, even here, “ weeding out ” is necessary. This process has been carried out, *infra*, on lines which have been found to lead to success.

The prices of all books mentioned are given ; and it may be well to say a word here regarding the expense connected with these examinations. It is to be feared that some men may still be deterred from qualifying because they imagine it involves considerable expenditure. True, it is quite possible, by buying expensive books and joining classes, to spend all, or more than the prize money awarded by the banks to successful candidates, but it is quite a fallacy to suppose that a large outlay is necessary. Cases are frequent where students pass in all three degrees without spending more than twenty shillings. Country candidates, unfortunately, have to incur the expense of travelling to, and staying for a day or two at, their nearest “ centre ” ; but if the matter is set about in the proper way the expenditure otherwise will be quite insignificant.

There are libraries at Edinburgh and Glasgow which should be taken full advantage of. For a fee of five shillings per annum from city men, and two shillings and sixpence from those in the country, books may be had on loan—the expenses of carriage to be paid by the borrowers. At the provincial centres there are also libraries which candidates may avail themselves of *gratis*. Catalogues may be had on application.

There are certain books which should have a place in every office—*e.g.* Wallace and M’Neil’s “ Banking Law ”—and others may be borrowed from friends. Although every enthusiastic bank man likes to have at hand a small library of books con-

nected with his calling, it is not necessary at this early stage to purchase books to any extent. Books supplied from the libraries, of course, can be retained only for short periods, and it is advisable to buy some of the really essential volumes. Practically all the necessary books may be obtained second-hand and at about half-price ; and, further, they may be sold to the bookseller for little less when the examination is over.

Of course, tutors may be employed and classes attended, and these have their own advantages. All that it is intended to show is that men with "a mind to work" may study independently of these, without feeling that they are thereby handicapped. At any rate, the question of expense need seriously trouble no one.

It may be mentioned here that every intending candidate should make a point of obtaining from the librarian at 62 George Street, Edinburgh, *gratis*, a copy of the Annual Report of the Institute, which contains much information of value to students.

HINTS AS TO METHOD

HAVING acquired the necessary books, the next consideration is how to make the most of them, so that the matter read may be retained, and no time wasted in the process.

There is but one accredited method—viz. the consistent use of note-books. It is one thing to read, another to understand, and quite a different thing to be able to communicate one's knowledge intelligibly in writing; and however closely one may read, even so as to be well grounded in a subject, the answering of direct questions in a clear manner is an art which is worthy of special attention.

A student should, therefore, practise the answering of questions set by himself on each passage he has read, endeavouring to arrange that his questions should cover the whole of his reading: or, alternately, a digest should be made of all that is read. Either method affords a means of testing the student's grasp of what he has perused, and the mere act of copying or condensing is a powerful aid to memory.

A note-book should be kept for each subject, and as much interest should be taken in recording matter as if entries were being made in the bank's ledger. A systematic and concise note-book will be a thing of beauty in itself, and a source of joy on the eve of the examination. There are many clever students from whom nature has seen fit to withhold a good memory; and the stimulus thus afforded by a vivid rehearsal of the work of the session might be spoken to by many a successful candidate.

As to the time a student should devote to study, and, further, to each subject, this will depend entirely on individual circumstances. On no account should he omit to draw up a time-table at the beginning of his course of study, and nothing should induce him to depart from it. The allotment of the student's time to the various subjects will depend upon special considerations—the amount of leisure at his disposal, his previous acquaintanceship with the subjects, his aptitude, and his genius for application.

As a rule, the best results will be found to emerge if a rest from labour is taken on Sundays and Saturdays, and a fair portion of each of the other nights is devoted to study.

A beginning may be made in September, and it is not advisable to delay later than October. An attempt should be made to read lightly the whole course before Christmas : then a fortnight's holiday may be indulged in ; after which, on the lines indicated above, all one's energies should be concentrated on the thorough mastery of the ground previously covered. This should be continued till the beginning of March, and the remaining days before the examination should be given to the revisal of notes.

At the examination itself there are several important considerations to be kept in view. No time should be wasted in getting to work ; but it is essential that the questions should first of all be carefully read over and thoroughly understood before the answer is attempted to any one of them, and then no irrelevant matter should be allowed to creep into the writer's paper. If a candidate hastily glances at the question, thinks he has caught its drift and dashes off an answer forthwith, he may find on further inspection that he has wasted precious minutes in penning matter for which he will be given no credit in the shape of marks.

The questions which should be attempted first are those with which the aspirant is most familiar ; having disposed of these he will find himself better able to cope with the questions that appeared at first the most difficult.

In Arithmetic and Algebra the solution should be attempted whether the candidate is able to work it to a correct conclusion or not, and on no account should the working be deleted because the results looks hopeless. Marks may be awarded for method in such cases, and an intelligent attempt to solve a problem may be deemed worthy of just the marks necessary to turn failure into success.

Let it be said emphatically—write *legibly*. Examiners cannot be expected to be more than human, and they will feel the reverse of complimented if treated as chirographic experts. It must be remembered that the quality of the penmanship is taken into account in awarding marks.

DIVISION OF THE WORK

It is in the option of candidates for admission to each of the degrees to attempt to effect a pass in one year, or to spread the work over two consecutive years; and the consideration arises in each individual case as to the better course to pursue.

It may be said at once that no definite recommendation can be made—either as to the merits of the alternative methods, or as to the distribution of the subjects. There may be special cases where it may be better to try to pass at one examination; but there are probably more instances where it is advisable to “hasten slowly.” It depends very much upon the nature of a student’s training, and the extent of his experience, how he should arrange to divide the work.

The following general rules, however, may safely be followed :—

I. ASSOCIATES

The four “school subjects” should certainly be taken as early as possible, before the memory of a teacher’s instructions has faded. It is wonderful how soon one forgets details of the lessons learned at school. If for any reason the candidate is anxious to get through in one year, he will find that an examination covering ten different subjects is not a trifling matter. At the same time, it is by no means impossible for a candidate of average intelligence—provided he works conscientiously—to attain a good pass at one attempt.

In the absence of special circumstances a two years’ course is recommended. After the examinations have all been successfully overcome, it is more satisfactory in every way to have a record of high marks, and, generally speaking, this is to be gained only if the full time allowed is taken.

Seven subjects may be attempted the first year, to allow a margin for possible failures. Four of these should be Arithmetic, Algebra, Geography and English. Exchange and Clearing, Note Circulation and History of Banking are subjects for which it is unnecessary to have much experience of banking, and as a rule these should complete the first year’s work.

The remaining three subjects—Bookkeeping, Interest and Charges and Negotiation of Bills and Cheques—are more easily

mastered after practical experience, and should be taken at the second effort the following year.

II. MEMBERS

If there is no urgent necessity to gain the Member's certificate by trying all the subjects in one year, two years should be given to the work. There is a very large field to be covered, and much solid reading to be overtaken; and if really satisfactory results are to ensue, the study of the various subjects should be distributed over two years.

Undoubtedly the best plan to adopt in the case of the Members' Examination is to divide the subjects so that full advantage may be taken of the fact that the nine subjects are spread over two days, and at the *beginning* of each morning and afternoon sitting the papers for the *whole* of the period are handed out. Thus, on the first morning the papers in Political Economy are distributed along with those in Stocks, and three hours may be taken to one subject or to both. It must be borne in mind, however, that Scots Law and Mercantile Law to a certain extent overlap, and that the reading for both (particularly for Mercantile Law) is parallel to that for Practical Banking. Further, Law of Bills, etc., is only a more advanced study of Negotiation of Bills and Cheques in the Associates' Examination. Foreign Exchanges and the Principles of Banking are departments of Political Economy; and the "Principles" are closely related to the "Practice" of banking.

Bearing these considerations in mind, the following alternative courses for the *first year* are recommended:—

1. Political Economy; Stocks; Foreign Exchanges; Bankruptcy; and Law of Bills.

or 2. Stocks; History and Principles of Banking; Scots Law; Mercantile Law; and Practical Banking.

Modifications of this division of the work may suggest themselves in view of special considerations peculiar to each candidate's circumstances, practical experience in particular being an important element in the matter.

I. ASSOCIATES' EXAMINATION

ARITHMETIC

A GLANCE at the paper will reveal the requisite proficiency in this subject.

In recent years there was a practice of setting several questions of quite an elementary character—intended to serve as a test rather of accuracy than of advanced knowledge. The tendency, however, is for such to disappear from the paper, which on the whole calls for a fair grasp of practical methods of solution of problems relating to the department of the science known as Commercial Arithmetic.

The branches requiring special attention are: Interest (Simple and Compound), Discount, Stocks and Shares, Partnership and Exchange (involving a knowledge of Chain Rule). In addition, the candidate should be prepared to solve problems of a more general nature.

It is important to remember at the examination that, although the answers must be given strictly in numerical order, it is not necessary that the questions should be dealt with in similar rotation. The candidate should first apply himself to the questions which appear to him to be the easiest of solution. As has been said, in awarding marks the examiner attaches importance to neatness and *method* as well as to correct working; and all attempts at solutions (even although they are not carried to a conclusion) should be handed in.

Any standard work on General Arithmetic may be studied on the lines indicated, and M'Kie's "Arithmetic for Bankers," which is specially adapted to the requirements of bank men, will prove a useful supplement.

YEAR 1910

(Answer any *six* questions)

The Answers must be given in the numerical order of the Questions, and the full working must be shown

1. Find, by Practice or otherwise, the value of 1735 ozs. 13 dwt. 12 grs. of gold at £3, 17s. 9d. per oz.

2. What is the difference between true and ordinary discount? Find the Bank discount on a Bill for £250 drawn on 5th April at 4 months and discounted on 10th April at $3\frac{1}{2}$ per cent.

3. If 5763 bushels of wheat are imported for £1800, 18s. 9d., and an import duty of $10\frac{1}{2}$ per cent. is paid on the purchase price, what is the amount of duty paid on each bushel?

4. A property was destroyed by fire, and the owner received from the Insurance Company £2760, which was two-thirds of the amount of the policy. The property was insured for three-fourths of its value, and the premium was £66·24. Find the value of the property and the rate per cent. of premium.

5. On starting business A has a capital of £6000; B is admitted as a partner 4 months afterwards with a capital of £4000. At the end of the year the profit is £2900. What share of this should each receive in proportion to capital, supposing that the rate of gain before the admission of B was a half more than it was afterwards?

6. One company pays a dividend of $6\frac{1}{2}$ per cent. on its stock. Another pays at the rate of 14s. per share on shares of £20 each. An investor buys the stock at a premium of $37\frac{1}{2}$ per cent., and the shares at a discount of £1, 15s. per share. Compare the rates of interest which the two investments yield him.

7. The exchange between London and Paris is 25·5 francs for £1; between Paris and Amsterdam 117 francs for 55 florins; between Amsterdam and Hamburg 8·25 florins for 13 marks. What is the equivalent in London of 2905 marks at Hamburg?

ALGEBRA

THE scope of the subject for the purposes of this examination is clearly defined. It embraces the science up to and including Quadratic Equations as found in the work recommended—viz. “Hall and Knight’s Algebra.” However, the smaller work by the same authors entitled “Algebra for Beginners” (2s. 6d.) will be found to completely cover the prescribed ground.

It should be carefully borne in mind that the remarks as to the value of method, and neatness of working, as described in the notes on Arithmetic apply equally here.

YEAR 1910

(Answer any *five* questions)

The Answers must be given in the numerical order of the Questions, and the full working must be shown

1. Simplify by removing brackets and combining like terms :

$$\frac{1}{2}x - \frac{1}{2}(\frac{3}{2}y - \frac{1}{2}z) - [x - \{\frac{1}{2}x - (\frac{1}{3}y - \frac{1}{4}z)\} - (\frac{2}{3}y - \frac{1}{2}z)].$$

2. Simplify :

$$\frac{x+1}{x^2-3x+2} + \frac{x+2}{x^2-5x+6} - \frac{x+3}{x^2-4x+3}.$$

3. Find the factors of the following expressions :—

(i) $64x^2 - 312x + 108.$

(ii) $1 - a^2 - b^2 - 2ab.$

(iii) $(a+2b)^2 - (3x+4y)^2.$

(iv) $x^3 - 8a^3 - 2x + 4a.$

4. Two persons invest the same amount of money, the first at $3\frac{1}{2}$ per cent, per annum, the second at $5\frac{1}{2}$ per cent per annum. The yearly income of the second is greater than that of the first by £3. How much did each invest ?

5. Find the square root of

$$x^2 + 2x + 7 + \frac{6}{x} + \frac{9}{x^2}.$$

6. Solve the equations :

(i) $\cdot 25x + \cdot 5 - (\cdot 5x - \cdot 2) = \cdot 05x + \cdot 625.$

(ii) $\frac{x-3}{x-2} = \frac{x+3}{x+5} - \frac{3}{4}.$

(iii) $x^2 + 5x = 750.$

GEOGRAPHY

ASTRONOMICAL and Mathematical Geography do not appear to come within the scope of the papers, and greater importance is attached to a knowledge of the science in its commercial than in its physical aspect.

While this is so, the candidate should not neglect to lay a sound foundation—if that has not already been done at school—by acquiring a thorough knowledge of Physical Geography : special attention being bestowed on the more important (from a commercial point of view) natural features, such as rivers and seas ; and to the division of the world into nations, state boundaries, colonies, etc. He will then be in a position to master more readily the principles of Commercial Geography—as to the national products, trade, intercourse, etc.

The British Islands, and Scotland in particular, should be studied very closely, both as regards physical characteristics, and with respect to towns, industries, and railways and other means of communication. India, the Colonies and Europe claim full and careful consideration ; and, as the questions do not stop short of world-wide application, a measure of attention should be accorded to the whole range of the subject. Some practice in map-drawing might prove useful.

As regards closer details of study, much depends upon the student's previous attainments.

Any standard school Geography may be employed, with Mill's " Commercial Geography " as supplementary, or to be used in revision. It is imperative that a good atlas be constantly referred to in connection with the text-books.

YEAR 1910

(Answer any *six* questions)

1. Name six leading commercial cities in England, giving the approximate population and the sources of prosperity of each.

2. Name the Colonial possessions of Germany in Africa and the Pacific Ocean.

3. Describe the course of the Clyde from its source to Greenock, naming the counties through, or between, which

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it flows, its chief tributaries, and the principal towns on its banks.

4. Name the Provinces of the Dominion of Canada, and give the chief town and principal productions of each.

5. A proposal has been brought forward to construct a canal from the Forth to the Clyde *via* Stirling and Loch Lomond. What, in your opinion, would be the probable result on the trade of Aberdeen, Grangemouth, Leith and Glasgow?

6. Name the principal shipbuilding towns and cities in England and Scotland.

7. In what country are the following places:—Yokohama, Manila, Batavia, Helsingfors, Rosario, Belgrade and Lille?

ENGLISH COMPOSITION

THIS paper follows on somewhat similar lines from year to year. The leading feature is undoubtedly the essay ; therefore at the outset the student should consult a standard text-book on the art of essay-writing, and set himself to acquire a good style of composition. At the examination a varied choice of subject is offered the candidate, and he should have no difficulty in selecting one suited to his individual taste. Even in this direction, however, a certain amount of preparation can be made, as there is what may be termed a favourite style of question in vogue ; and not infrequently the candidate is asked to express his views on some current political question ; or to describe his favourite author, with a brief description of his works.

It should be remembered that one page of carefully and correctly worded matter is infinitely more valuable than double the amount of loose composition.

An important feature in the course of preparation should be the practice of paraphrasing, as only by persistent application can excellence be attained. At the examination the candidate should first carefully read over the prescribed passage, and try to grasp its collective meaning before attempting to express it in his own phraseology.

Questions on the correct use of words and the correction of sentences are regularly set, and for this a knowledge of the chief rules of grammar and syntax is essential. Further it is requisite that the student be familiar with the more common figures of speech.

A book recommended for the guidance of students is Masson's " Use and Abuse of English " ; and this concise handbook will be found to deal thoroughly with the subject for the purposes of this examination. Where necessary, however, a standard work on English Grammar should be used in addition.

YEAR 1910

1. Write a short essay on any *one* of the following :—

- (a) The qualities that make a great man.
- (b) The advantages and disadvantages of life in the Colonies.

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(c) Single-chamber versus two-chamber government.

(d) Tariff Reform.

2. Paraphrase :—

✓ Order is Heaven's first law ; and this confest,
Some are, and must be, greater than the rest,
More rich, more wise ; but who infers from hence
That such are happier, shocks all common sense.
Heaven to mankind impartial we confess,
If all are equal in their happiness :
But mutual wants this happiness increase ;
All nature's difference keeps all nature's peace.
Condition, circumstance, is not the thing ;
Bliss is the same in subject or in king,
In who obtain defence, or who defend,
In him who is, or him who finds, a friend :
Heaven breathes thro' every member of the whole
One common blessing, as one common soul
But Fortune's gifts if all alike possest,
And each were equal, must not all contest ?
If then to all men happiness was meant,
God in externals could not place content.

3. Distinguish between the meanings of the following pairs of words and illustrate by sentences their correct use :—
luxury, luxuriance ; incredible, incredulous ; fleshy, fleshly ;
apposite, opposite ; sensible, sensitive.

4. Correct the following sentences where necessary, and give reasons for your answers :—

(a) He said that he has never seen snow before he had come to this country. *

(b) Porridge and milk is excellent feeding.

(c) He is a man of very determined character, and who can be trusted to the uttermost.

(d) Going to the station the wind was full in our faces.

(e) I think Tariff Reform is one of the best measures that has ever been placed before the country.

5. Define and illustrate the following figures of speech :—
metaphor, simile, epigram, euphemism, metonymy.

BOOK-KEEPING AND BANK BOOKS

FROM a cursory glance at the papers it will be seen that questions in Commercial Book-keeping and in Bank Book-keeping are set in the proportion of about one of the former to five of the latter. Hence it is advisable to lay the greater stress on purely banking matter.

Commercial Book-keeping, however, is not to be neglected, because it will be found that books on Bank Book-keeping exclusively assume a knowledge of the elements of General Book-keeping: while for the Members' Examination (and, of course, apart from examinations altogether) a knowledge of Mercantile Book-keeping will be found necessary for the criticism of Balance Sheets. It does not much matter which book on this part of the subject is procured. The council recommend Chambers's "Book-keeping by Single and Double Entry"—which has the further merit of cheapness—and Longman's "Studies and Questions in Book-keeping." There are besides Thornton's "First Lessons in Book-keeping" (2s. 6d.) and the "Student's Book-keeping," by Fieldhouse (4s.), and a host of other publications. Only one is necessary and Chambers's will be found quite sufficient to meet requirements.

The student should make himself familiar with the characteristics of the Single Entry system, and with the principles of Double Entry Book-keeping. In particular, the several functions of the books in use in Commercial Book-keeping should be learned, together with the form of Merchant's Accounts, Balance Sheets, Capital Account, Profit and Loss Account, and similar items. Most books on the subject include a list of definitions of terms in common use in reference to Book-keeping, and it will be well to get a grasp of the meaning of, at any rate, the most common of these. It will be noticed with what unflinching repetition are asked the meanings of terms such as Assets, Liabilities, Solvency, etc.

For Bank Book-keeping there is M'Kie's "Bank Book-keeping and Accounting," and to this well-known work close attention should be given. It deals very fully with Branch and Head Office Book-keeping and Branch Returns. Very few candidates can have had any experience whatever of Head Office Book-keeping, and for this they must rely upon M'Kie.

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The student may find that on minor points the practice of his own bank in respect of Branch Book-keeping and Returns differs from the methods set forth by M'Kie ; but it is best to be assured (by reference if necessary to older members of the staff) as regards the system in vogue in the student's own bank, and when in doubt to stand by that. From this cause it is quite possible that a question may confuse a candidate, and in these circumstances he should explain that his answer is in accordance with the practice of his own bank.

It will be well to be thoroughly prepared to state the meaning of Rebate, Discount and similar terms.

Each candidate should strive to master the routine work of his own office, because very simple questions on procedure may be asked which can be answered only from personal observation ; and the contents of circulars, etc., from Head Office should be carefully noted.

In addition to these sources of information, there are one or two precautions which should on no account be overlooked. Students should be perfectly familiar with the Balance Sheet of their own bank, including the figures in round numbers (being able to distinguish readily between Assets and Liabilities), and with the form of a bank's Profit and Loss Account. Banking statistics appearing in Oliver & Boyd's Almanac should be consulted.

This exhausts the material to be perused, and it is not at all difficult to satisfy the requirements of the examiner in this subject.

It may be added—for the information of students who can afford it—that Van de Linde's " Book-keeping " (7s. 6d.) is a standard work, dealing in an authoritative manner with General and Bank Book-keeping, which will be found particularly interesting on the subject of Audit.

YEAR 1906

1. Arrange on Debtor and Creditor sides of Cross Entry Book, or Scroll Cash-Book, the following entries :—

Bill for £300, retired in London, commission 4s. 6d.

Cheque for £200, debited by Dundee Branch.

A sum of £400 paid in at Perth for credit of a customer's account.

£200 bill for collection, debited by Head Office.

Cheque for £300 debited by an English correspondent.

Dr.		Cr.
To London Office Account,	£300	By Transfers Paid,
To Commission Account,	4 6	£400
To Cheques received	200	
To Bills received	200	
To Banking Correspondents.	300	

2. Give examples of entries made to the Debit and Credit of Interest Adjustment Account at a Branch.

<i>Dr.</i>	<i>Cr.</i>
To Interest accrued on Deposit Receipts.	By Interest due to Bank not paid.
To Rebate— Loans Bills.	
To Interest due by Bank not paid.	

(In most banks there is no "Interest Adjustment Account" at the branches, and the closing entries are adjusted at Head Office.)

3. What do you understand by—

- (a) Profit and Loss Account.
- (b) " Liabilities " and " Assets."
- (c) " Capital " and " Income."

Answer.

The purpose of a Profit and Loss Account is to show the position of a business concern in respect of the profit made or the loss incurred. To the *Dr.* side of the account are transferred the Losses, as shown in the respective Ledger Accounts, and to the *Cr.* side the Profits. The account is balanced by the Profit being carried to the *Cr.* side of Capital Account, or the Loss to the *Dr.*

A man's Liabilities consist of what is due *by* him to others: his Assets consist of his property, including sums due *to* him.

The Capital of a merchant is the amount he is worth under deduction of all debts due by him, but the term is more strictly applied to the sum of money which has been put into a business originally, or is subsequently available for carrying it on. Income is the return received from Capital.

4. Explain the meaning of—

- (a) Interest not accrued.
- (b) Rebate on Bills discounted.
- (c) Compensating interest.

Answer

(a) Interest not accrued is that part of the interest (paid in advance) on a loan, which at any particular date has not actually been earned, being the interest applicable to the unexpired period of the currency of the loan.

(b) Rebate on bills discounted is that portion of the discount which will not really have been earned until maturity; in other words, it is the proportion of discount applicable to the unexpired period of currency. (The term also means the allowance made to the discounter of a bill who retires it before maturity.) Allowance is made at the Annual Balance for interest not accrued and rebate because they belong properly to the income of the following year.

(c) Where a customer has two or more accounts, some with debtor balances and some with creditor balances, Compensating Interest may be allowed on the latter up to the amount of the debtor balances. The result is that the customer really pays interest, not on the full amount overdrawn, but on any excess of the debtor over the creditor balances.

5. What is meant by a subsidiary book? Name one.

Certain books are reckoned to be of primary importance—*e.g.* in Bank Book-keeping, the Cash Book, Journal and Ledger. The other books are “subsidiary”—*e.g.* the Draft Register.

6. From what books are the principal Returns from a Branch to its Head Office made up?”

Answer

Weekly Returns :

List of Overdrawn Accounts—made up from Cash and Current Account Ledger.

Report on Bills discounted—made up from Bill Register and Discount Ledger.

List of Loans—made up from Ledger and Securities Register.

State—made up from Weekly Cash Book.

Statement of Cash—made up from Daily Cash Balance Book.

Annual Returns :

List of Deposit Receipts Outstanding—from Half-Yearly Balance Book and Deposit Receipt Register.

List of Cash and Current Accounts—from Ledgers.

List of Overdrafts on Cash and Current Accounts—from Ledgers.

Local Bills discounted—made up from Bills on hand (with rebate).

Bills received from Branches—made up from bills on hand (with rebate).

Past-Due Bills—from Past-Due Bill Register.

Loans on Securities—from Ledger and Securities Register.

Abstract of Interest, Commission and Charges—from Cash Book and General Ledger.

YEAR 1907

(Answer any *six* questions)

1. Name the accounts in the General Ledger of a Branch Bank. What class of transactions pass through the Bank's Account ?

Answer

Bank's Account, Local Bills, Past-Due Bills, Scotch Bills, English Provincial Cheques lodged for Collection, Deposit Receipts, Loans on Securities, Cash Credit Accounts, Current Accounts, Exchange Balances, Interest Account, Commission Account, Stamp Account, Charges Account and Balance of Cash.

Through the Bank's Account are passed transactions which arise at one office and are liquidated at another.

2. Explain the nature and purpose of a Cash Book, and give an example of the entries made in it.

Answer

In the Cash Book a record is kept of transactions involving the receipt or payment of cash. On the *Dr.* side appears an account of cash received and discount allowed by you ; on the *Cr.* side an account of cash paid by you and discount allowed to you. The balance of the Cash Book at any date shows the amount of cash in hand or overpaid. (See p. 32.)

3. Give a specimen of a Customer's Current Account for a complete year, as it would appear in the Ledger—showing balances Creditor and Debtor ; the calculation and application of interest ; and the account balanced and docqueted. (See p. 32.)

[EXAMPLE OF CASH BOOK AND
CUSTOMER'S CURRENT ACCOUNT.]

CASH BOOK

1907		CASH RECEIVED		1907		CASH PAID	
Jan.	I	To J. Doe— Cash at commence- ment		Jan.	I	By Cash Purchases— Taxes	
		To Goods— Cash sales	100			" R. Roe's account paid	10
		" Bills receivable— No. 3	25			" Bank	25
			49			" Cash on hand	110
			4				14
			£174				£174
							16

CUSTOMER'S CURRENT ACCOUNT

John Elliot, Farmer, Yarrow

[illegible]

The above account having been examined by me and found correct, the relative vouchers were delivered up, and the balance, amounting to two hundred and ninety-two pounds eight shillings and nine pence, carried to my credit in a new account.

(Signed) JOHN ELLIOT.

4. How, and in what books, should a record of (a) Deposit Receipts granted, and (b) Drafts issued, be made?

Answer

(a) A Deposit Receipt granted should be entered by the teller in his Cash-Book from the request slip; in the Deposit Receipt Register before the receipt is signed; from the Register the entry should be made in the Weekly Cash-Book; and lastly the receipt should be recorded in the Deposit Receipt Index.

(b) A Draft issued should be entered by the teller in his Cash-Book from the request slip; in the Draft Register before the Draft is signed; and in the Weekly Cash-Book from the Draft Register.

5. Make out a Profit and Loss Account from the following statement, and carry the balance to Capital Account:—

I have made £70 profit on tea, £80 on coffee, and £15 on sugar; my expenses have been £12, bad debts £5 and discounts £2, 7s. 9d.

PROFIT AND LOSS ACCOUNT

1906					1906				
Dec.	31	To Expenses	£12		Dec.	31	By Profit—Tea	£70	
		„ Bad Debts	5				„ „ Coffee	80	
		„ Discounts	2	7 9			„ „ Sugar	15	
		„ Profit transferred to Capital Account							
			145	12 3					
			£165	0 0				£165	

CAPITAL ACCOUNT

1906					1906					
					Dec.	31	By Profit	£145	12	3

6. Explain the meaning of the expressions:

Bills Payable.

Liabilities.

Bills Receivable.

Solvent.

Assets.

Insolvent.

Answer

Bills Payable are those which a person has accepted, and which therefore fall to be paid by him.

Bills Receivable are those which a person has drawn, payment of which falls to be received by him.

A person's Assets are what he is worth. His Liabilities are what he owes to others.

3. In the Balance Sheet of a bank, do the following items appear as Assets or Liabilities?

Reserve Fund.

Notes issued.

Bills accepted on behalf of Customers.

Bills discounted.

Answer

Reserve Fund—Liability (to Proprietors).

Notes issued—Liability (to Public).

Bills accepted on behalf of Customers—Liability (contingent only, set off by item in Assets "Securities against Acceptances").

Bills discounted—Asset.

4. A Scottish branch bank cashes a cheque on an English provincial town. State the entries which would be made in the books and returns of the Scottish Bank.

Answer

(a) If the cheque is negotiated through the London office, "London Office Account" is debited and "Commission Account" credited.

(b) If the cheque is sent direct, the paying bank being a correspondent, that correspondent's account is debited and "Commission Account" credited.

(c) If the cheque is sent direct to the bank upon which it is drawn, that bank not being a correspondent, "London Office Account" should be debited, and "Commission Account" credited.

In each case, these entries will appear under their respective accounts in the Weekly Abstract of State sent to Head Office.

5. Define the following terms:—Rebate, Discount, Exchange, Assets, and Liabilities.

Answer

Rebate is the allowance made to a person who takes up a bill or loan before its due date, in respect of his not having had the use of the money for the full period for which he has paid. The term is used also to denote that portion of discount or interest which has been received by the bank, but which will not actually have been earned until the maturity of the bill or loan: in other words, the Discount or Interest for the unexpired period.

Discount:

(a) The allowance made by the recipient of a payment to the person who pays.

(b) The charge made by a bank for advancing the money on a bill which is not yet due.

Exchange:

(a) A transaction between two parties.

(b) The means whereby remittances in different currencies are negotiated.

(c) A place where commodities change hands.

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(d) Sometimes used to denote the commission charged or allowed on issuing Foreign Drafts.

Assets—What a person is worth.

Liabilities—What a person owes.

6. What entries are made at a Branch Bank in connection with a Bill discounted payable locally : (a) when discounted, (b) at maturity ?

Answer

(a) Debit "Local Bills" with the amount of the Bill, and credit the discount to "Interest Account," and, unless the transaction is a cash one, the customer's account will be credited with the proceeds.

(b) Credit "Local Bills Account."

7. A customer, whose account is overdrawn, wishes an English Provincial Cheque placed to his credit free of charge. How is this done and what are the entries ?

Answer

If the customer is willing to wait for the proceeds until the fourth business day after the date of presentation, the charge may be waived. On the date of presentation "London Office Account" is debited and "English Provincial Cheques lodged for Collection" credited. On the fourth business day, the latter account is debited, and the proceeds placed to the customer's credit.

YEAR 1909

(Answer any *six* questions)

1. What, in Commercial Book-keeping, is the purpose of (a) a Ledger, (b) a Bill-Book, (c) a Cash-Book ?

Answer

(a) The Ledger is the book wherein transactions, after passing through the "Books of Original Entry," are finally arranged, condensed, and classified under their respective heads. It is the most important of all the books.

(b) In the Bill-Books are recorded particulars of Bills payable and Bills receivable, on their being accepted or drawn. The respective ledger accounts are posted from these books.

(c) The Cash-Book is the book of original entry for cash transactions. On the *Dr.* side are entered sums received, and on the *Cr.* side sums paid, the "balance," or difference between the two sides being the amount of cash in hand or overpaid.

2. How should Interest, due on Deposit Receipts outstanding at the date of a Bank Annual Balance, be treated ?

Answer

The interest, of course, is due to customers, just as is the principal sum, and it is therefore to be considered as a liability. It is generally included in the total amount of Deposits, shown

in the Balance Sheet, as "Deposit Receipts and Current Account Balances with Interest accrued."

3. A branch with advances amounting to £500,000 and deposits totalling £100,000 shows a Balance at Credit of Profit and Loss of £20,000. Has this profit been earned by the branch? Give reasons for your answer.

Answer

It is not usual to have a Profit and Loss Account at each branch. If it is meant that the Income at the branch has exceeded the Expenditure by £20,000, then it is not correct to give the branch credit for having earned that amount of profit. As this branch has lent £400,000 in excess of its deposits, it must be charged for that surplus at the net lending rate—*i.e.* the rate earned by the bank's money under deduction of expenses incurred, locally and at Head Office.

4. What information is detailed in the books of a bank office regarding Bills which have been discounted there?

Answer.

The following particulars are recorded :—

Date of discount ; No. of bill ; discounter ; drawer ; drawee ; where payable ; date of bill ; term of currency ; due date ; discount rate ; commission ; discount ; amount of bill ; fate.

Reports on and opinions received as to obligants are recorded.

5. Name the accounts in the General Ledger of a branch bank.

Answer

Bank's Account ; Local Bills ; Past-Due Bills ; Scotch Bills ; English Provincial Cheques lodged ; Deposit Receipts ; Loans on Securities ; Cash Credit Accounts ; Current Accounts ; Exchange Balances ; Interest Account ; Commission Account ; Stamp Account ; Charges Account ; Balance of Cash.

6. On the morning of 4th January a cheque dated 5th January, drawn on your office, is received by letter from another branch. What course would you adopt, and what would be the resulting entries?

Answer

The remitting branch should be credited with the amount on receipt of the cheque. The document, not yet being due, should be held over, and the remitting branch should be debited with the amount and advised of the fact. On the 5th the remitting branch should be credited and the customer's account debited.

7. A draft on London at 14 d/d for £100 is issued at your office. What is the amount of the Stamp Duty, and what entries are made in that connection?

Answer

In the case of Scottish banks, the entries in connection with the Stamp Duty are made at Head Office, who compound with

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the Inland Revenue authorities by paying at the rate of 3s. 6d. per cent. half-yearly on the average weekly amount issued.

YEAR 1910

(Answer any *six* questions)

1. Define Gross and Net Profit.

Answer

The Gross Profit earned on trading is arrived at by finding the excess of the receipts from goods sold *plus* the value of the stock on hand at a particular date, over the cost of goods bought *plus* the value of the stock at commencement.

The Net Profit is—the Gross Profit *less* the outlays for trade expenses, etc.

2. State the principal books used in Mercantile Book-keeping, and the nature and use of each.

Answer

(a) The Journal. The entries are transferred from the Waste-Book, in which they appear simply in chronological order, into the Journal, where they are further arranged into “debits” and “credits,” there being two money columns, *Dr.* and *Cr.*, for this purpose. The object of this classification is to facilitate the posting of the Ledger.

(b) The Ledger. This is the principal book, because in it are recorded the transactions finally arranged under their various “heads” or “accounts”—viz. Personal Accounts for traders and customers dealt with; and Impersonal Accounts, including the accounts opened to keep distinct the various classes of property in which the Capital is embarked, (called “Real Accounts”) and “Nominal Accounts,” such as Revenue, and Profit and Loss. Entries are made to the debit and credit of these accounts, so that at any time balances may be struck, and the merchant may discover exactly how he stands—what he owes; what is due to him; whether he is gaining or losing; the sources of his gains and losses; and whether (and to what extent) he is solvent or insolvent.

(c) The Cash-Book. In this book cash transactions are originally entered—receipts on the *Dr.* side and payments on the *Cr.* side. The difference between the sides at any time is thus the balance of cash on hand or overdrawn. Strictly speaking, the Cash-Book is a portion of the Ledger—Cash Account—bound separately for the sake of convenience.

Other Books in use are: Bought Day-Book, or Invoice Book; Sales Day-Book, or Day-Book; Bills Receivable Book; Bills Payable Book; Stock-Book; and Warehouse-Book.

3. A cheque on Liverpool is forwarded by your office in

the usual way *via* London, and is returned direct marked "Endorsement irregular." What entry is made by your office, and in re-presenting the cheque what would be the most prudent course to adopt?

Answer

London Office Account should be credited, because repayment will be obtained by the returning bank from the London office. As a safeguard, the cheque should be re-presented direct to the office on which it is drawn, in case the drawer's position is meanwhile altered for the worse.

4. Banks are in the habit, from time to time, of writing off sums "Against Bank Buildings." Why is this done, and how is the bank's position strengthened thereby?

Answer

It is both prudent and necessary to write down the value of the Bank's Heritable Property, in order to provide for the process of depreciation at most of the branches. It may be that the total value of a bank's property exceeds the adjusted valuation after sums have been repeatedly written off against it; and, as the value of the property itself, and the return from it, are not affected by book entries, the result is that the bank's position is really stronger than it appears to be.

5. A Deposit Receipt for £100 is issued on 4th January and paid on 4th July, the interest being £1, 10s. Give a complete record of the entries at issue and at payment.

Answer

On 4th January the account "Deposit Receipts" is credited with £100 in the Teller's Cash-Book and the Weekly Cash-Book; particulars are recorded in the Deposit Receipt Register; and the receipt is entered in the Deposit Receipt Index.

On 4th July the account "Deposit Receipts" is debited with £100 in the Teller's Cash-Book and the Weekly Cash-Book, and "Interest Account" is debited with £1, 10s. in the same books. The Receipt is noted as paid in the Register (or Half-Yearly Balance Book) and Index.

6. What items appear in the periodical statement of money lodged and lent at a Branch?

Answer

Money lodged:

- Cr.* Balances of Current Accounts.
- Cr.* Balances of Cash Credit Accounts.
- Deposit Receipts.

Money lent:

- Dr.* Balances of Current Accounts.
- Dr.* Balances of Cash Credit Accounts.
- Bills discounted.
- Loans against Securities.

7. In the Current Account Ledger money lodged by a customer is entered " By " so much ; in the Pass-Book it is entered " To " so much. Explain the reason for the different terms.

Answer

In the Ledger, the customer is reckoned to be " in account with " the bank : therefore when he pays money into his account he is creditor " by " the bank to that extent.

In the Pass-Book, on the other hand, the bank is taken to be " in account with " the customer : hence, from the point of view of the bank, it is debtor " to " the customer for the amount lodged by him.

EXCHANGE AND CLEARING HOUSE SYSTEM AND RULES

THIS is an easy subject, requiring simply a knowledge of the Rules of the Edinburgh Clearing House and Note Exchange. The only difficulty that may be experienced by country candidates is that they must simply memorise the practices in vogue in Edinburgh, which, of course, they cannot see in operation for themselves. On the other hand, town men may find it difficult to remember all the details regarding Country Exchanges, with which they are not familiar.

There are two text-books in the field, of which candidates may have their choice: Graham's "Bank-Note Circulation of Scotland" and McKie's "Clearing, Interest, and Charges." It will be noticed that each book covers another subject in addition.

Students should be able to work out a General Settlement; and full guidance is afforded on this point and on almost all others that can arise in connection with this subject in the solutions subjoined.

YEAR 1906

1. Which banks undertake the settlements in the exchanges at Edinburgh and Glasgow, and to what extent are they responsible for the transactions.

Answer

The settlements of the exchanges at Edinburgh and Glasgow are undertaken by the Bank of Scotland and the Royal Bank of Scotland in alternate months. It is provided that neither bank is to incur any responsibility in this connection.

2. Give the rule as to the return of a dishonoured document (a) payable at a chief office and which has been presented direct, (b) payable at a chief office and which has been sent through the Clearing House, (c) payable at a town branch and presented through the Clearing House.

Answer

(a) The Clearing House Rules provide that documents which are *clearable* may be presented direct. (1) If presented in sealed packet, such documents, if dishonoured, must be returned not later than through the first Clearing thereafter. (2) If presented by messenger, the documents should be dishonoured at presentation.

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(b) Documents payable at chief offices presented through the clearing and dishonoured, shall be returned by messenger on the day of clearing to the office by which they were cleared, not later than 3 P.M. on days other than Saturdays and Local Holidays, 12.30 P.M. on Saturdays, and 11.15 A.M. on Local Holidays.

(c) Documents payable at branches, not duly honoured, shall be returned by first post after dishonour, or by other means involving no greater delay, direct to the offices at which they were cashed.

3 In the event of the fourth day after the settling day being an English Bank Holiday how are the Settlement Letters of the Edinburgh Clearing House dealt with?

Answer

In the event of the fourth day after the Settling Day being an English Bank Holiday, payment of the balance is postponed until the first business day thereafter, and additional interest is included for the day or days so added.

4. Show how the payments should be made under the following copy of a Settlement of Exchange :—

In favour	Banks	Against	Payments	To whom paid
£59,389 1 6 46,316 0 10 49,911 10 8 18,318 6 0 £173,934 19 0	B. of S. Royal B. L. Co. Com. Nat. Union Clydes.	£67,148 12 11 82,447 1 7 24,339 4 6 £173,934 19 0		

Answer

In Favour	Banks	Against	Payments	To whom paid
£59,389 1 6 46,316 0 10 49,911 10 8 18,318 6 0 £173,934 19 0	B. of S. Royal B. L. Co. Com. Nat. Union Clydes.	£67,148 12 11 82,447 1 7 24,339 4 6 £173,934 19 0	{ £26,853 10 7 40,295 2 4 59,389 1 6 23,058 0 1 6,020 18 6 18,318 6 0 £173,934 19 0	Union Com. B. L. Co. Union Com. Clydes.

YEAR 1907

1. What documents may be passed through the Edinburgh Clearing House?

Answer

The documents which may be passed through the Edinburgh Clearing House are: Demand Documents payable at the Banks in Edinburgh, Bills domiciled with the chief offices of the banks in Edinburgh, and Documents payable elsewhere in Scotland where the clearing bank has not a branch or correspondent.

2. The Commercial Bank, Edinburgh, receives from a customer, on Saturday, eighteen £1 notes and four £100 notes of the National Bank. When are these exchanged?

Answer.

The £1 notes form part of Tuesday's exchange; the £100 notes are exchanged at the Saturday afternoon exchange.

3. How often does the "General Settlement" take place in Edinburgh? Show how it is accomplished, the following being the figures:—

In favour	Bank of Scotland	£17,428
	Royal Bank	19,229
	British Linen Bank	13,461
	Commercial	18,289
Against	National	25,157
	Union	8,590
	Clydesdale	15,990

And the balance against North of Scotland.

Answer

The General Settlement in Edinburgh takes place twice weekly—on Mondays and Thursdays; if Monday or Thursday is a Bank Holiday, the Settlement takes place on the following Tuesday or Friday.

In Favour	Banks	Against	Payments	To whom paid
£17,428 19,229 13,461 18,289	B. of S. Royal British Com. Nat. Union Clydes. North	 £25,157 8,590 15,990 18,670	 { £19,229 5,928 8,590 { 11,119 4,871 { 12,361 6,309	 Royal Com. British B. of S. British Com. B. of S.
£68,407		£68,407	£68,407	

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In this case the balance against the North of Scotland Bank is the difference between the total "in favour" and the total "against"—viz, £18,670.

4. A country Branch of the Royal Bank cashes the following cheques. How does it deal with each?

(a) On an Edinburgh branch of the Union Bank.

(b) On a branch of the Bank of Scotland in a country town where the Royal Bank is not represented.

(c) On a branch of the Clydesdale Bank in a town where the Royal Bank has a branch.

Answer

(a) The cheque should be sent to the head office of the Royal Bank, by whom it is cleared.

(b) The cheque may be sent by post to the office of the Bank of Scotland upon which it is drawn, and a debit Clearing House Voucher for the amount forwarded to the head office of the Royal Bank to be cleared against the Bank of Scotland; or the cheque itself may be negotiated through the Edinburgh Clearing House.

(c) In this case the cheque should be sent to the Royal Bank's branch in the town where it is payable.

5. How is settlement effected at country exchanges when the Balance is *over* £100 and when it is *under* £100?

Answer

At Country Exchanges, when the balance is *over* £100 it is paid by means of an "Exchange Settlement"—i.e. a draft on the Edinburgh office of the paying bank. When the balance is *under* £100 it is paid by means of a Local Exchange Voucher which is carried forward by the receiving bank to be included in the next exchange. On Saturdays, however, *all* balances, whether over or under £100, are accounted for by Exchange Settlements.

YEAR 1908

1. When and by whom was the Note Exchange established in Scotland, and what was the position of the British Linen Company Bank in the matter?

Answer

The first note exchange in Scotland (and Great Britain) took place in 1752, between the Bank of Scotland and the Royal Bank of Scotland. At that date the British Linen Company (now the British Linen Bank) was engaged almost exclusively in the linen trade, and was represented in the Note Exchange by the Royal Bank, who retired their notes.

2. Name an important respect in which the Note Exchange on Saturday afternoon in Edinburgh differs from that in a provincial town.

Answer

The Note Exchange on Saturday afternoon in Edinburgh includes only *large* notes ; whereas in the country *all* notes, large and small, are exchanged at the close of business on Saturday.

3. Is a Scottish Bank entitled to re-issue to the public the notes of another Scottish Bank ? Give reasons.

Answer

It is provided by Rule X. of the Edinburgh Note Exchange that the banks shall bring into the exchange-room regularly, at their head offices and agencies, *all* the exchangeable notes received, and that under no circumstances shall any of the subscribing banks issue the notes of another Scottish bank without permission first asked and obtained. This rule is framed "in consideration of the circulation of each bank (other than what may be issued against gold and silver coin) being fixed and limited by the Act 8 and 9 Vict. cap. 38." (Peel's Act of 21st July 1845.)

4. Describe clearly the mode of "General Settlement" in Edinburgh of Balances of Exchange and Clearing, and state how often it takes place.

Answer

The General Settlement in Edinburgh of the balances of Exchange and Clearing is carried out thus :—

The largest creditor is paid by the largest debtor ; if this is not sufficient to discharge the largest creditor, the balance is paid by the next largest debtor, or debtors ; if there is a balance *over* after the largest creditor is satisfied, that balance is applied to pay the second largest creditor ; and so on in in their order of amount, until the settlement is completed. (The same result would be arrived at by reversing the process—the smallest creditor being paid by the smallest debtor.) The reason for this system of settlement is understood to be that in the event of any bank defaulting the loss would be more equally distributed.

The General Settlement takes place twice weekly, on Monday and Thursday, at 2 P.M. If Monday or Thursday is a Bank Holiday, the settlement takes place on the Tuesday or Friday following.

5. What is the rule as to presentation of Bills domiciled payable in Edinburgh at (a) Head Offices, (b) Branches ?

Answer

(a) Bills domiciled at the Head Offices in Edinburgh may be cleared in the usual manner, or presented by messenger in closed packets, or presented by post or messenger and payment obtained by means of debit vouchers cleared in their place.

(b) Bills domiciled at Edinburgh Branches must be collected by messenger.

YEAR 1909

1. Where and when was the first Bank Clearing House established in Scotland?

Answer

The first Bank Clearing House in Scotland for cheques was established at Glasgow in March 1856. (Edinburgh followed four years later. The first Note Exchange was held in Edinburgh in 1752.)

2. What are the advantages of a regular system of Note Exchange?

Answer

The original aim of the system of note exchange in Scotland was to ensure that the circulation should not be abnormally swelled. By returning to the respective banks immediately such of their notes as came into their hands, the old banks were able to keep the circulation of notes issued by little country concerns within moderate limits, and thus the risk of over-issue was guarded against.

At the present time, it is to the advantage of the banks to have such of their notes as are not in the hands of the public returned to them as soon as possible, because of the Stamp Duty exigible on the amount "in circulation"—*i.e.* notes in other hands than those of the issuing bank and its branches. Further, a reserve of coin has to be held against the excess of the actual circulation over the amount authorised by the Act of 1845.

3. How often does the "General Settlement" take place in Edinburgh? Show how it is accomplished, the following being the figures:—

In favour, Bank of Scotland	£98,465
National Bank	18,234
Union Bank	41,211
Clydesdale Bank	14,186
Against, Royal Bank. . . .	£44,289
British Linen Bank	52,889
Commercial Bank	46,551
North Bank	28,367

Answer

Refer to Year 1908, Question No. 4.

B. of S. largest <i>Cr.</i>	£98,465 paid by
British, largest <i>Dr.</i>	52,889
leaving	45,576 paid by
Com. next largest <i>Dr.</i>	46,551
leaving	975 paid to

Union, next largest <i>Cr.</i>	.	.	£41,211	
leaving	.	.	40,236	paid by
Royal, next largest <i>Dr.</i>	.	.	44,289	
leaving	.	.	4,053	paid to
Nat. next largest <i>Cr.</i>	.	.	18,234	
leaving	.	.	14,181	paid by
North, next largest <i>Dr.</i>	.	.	28,367	
leaving	.	.	14,186	paid to
Clyde. <i>Cr.</i>	.	.	14,186	

In Favour	Banks	Against	Payments	To whom paid
£98,465	B. of S.			
	Royal	£44,289	{ £40,236	Union
	British	52,889	{ 4,053	Nat.
	Com.	46,551	{ 52,889	B. of S.
	Nat.		{ 45,576	B. of S.
18,234	Union		{ 975	Union.
41,211	Clydes.			
14,186	North	28,367	{ 14,181	Nat.
			{ 14,186	Clydes.
£172,096		£172,096	£172,096	

4. The Clydesdale Bank, North Berwick, cashes a cheque on the British Linen Bank, Broxburn. How does it obtain payment? Should the cheque be dishonoured, what course does the British Linen Bank take?

Answer

The Clydesdale Bank, North Berwick, should send the cheque direct by post to the British Linen Bank, Broxburn, and send to the Edinburgh Office of the Clydesdale a debit voucher for the amount, to be cleared against the British.

If the cheque is dishonoured, it should be returned direct by the British Linen, Broxburn, to the Clydesdale, North Berwick, the British obtaining repayment by sending to their head office a debit voucher to be cleared against the Clydesdale.

5. How should a branch agent in Edinburgh negotiate a cheque on a bank in his neighbourhood, payment of which is doubtful?

Answer

If an Edinburgh bank agent is doubtful regarding the due payment of a cheque drawn on a neighbouring office, his best course is to present the cheque for payment by messenger, accompanied with a Clearing House Voucher for the amount. If the cheque is paid, the Debit Voucher is signed by the paying bank, and is cleared against it.

YEAR 1910

1. What arrangements have been made by the Scottish banks to restrict the re-issue by any of them of another's notes ?

Answer

The Scottish banks have agreed to "bring into the exchange-room regularly, at their head offices and agencies, all the exchangeable notes which they receive ; and under no circumstances shall any of them issue the notes of another without permission first asked and obtained."

2. What is the advantage to the banks of an exchange of notes on Saturday afternoon ?

Answer

Under the Act of 1853, each bank renders half-yearly to the Commissioners of Stamps and Taxes an account of the amount of notes in circulation at the close of business on Saturday of each week, from which the average weekly circulation for the half-year is found. On this weekly average the Stamp Duty on the circulation is compounded for, and it is obvious that it is to the advantage of the banks to "return" as small a circulation as possible. As notes in the hands of other banks are "in circulation," the Saturday afternoon exchange reduces the amount considerably.

The Weekly Return under the Act of 1845 of notes in circulation and gold and silver coin held at the head offices and the branches (for the purpose of informing the Government that the excess circulation over that authorised is properly secured) is also made up from the state at the close of business on Saturday, and in this connection also the Saturday afternoon exchange is of advantage to the banks.

3. How does the Edinburgh Clearing House provide for the presentation at the due date of bills payable at places outside Edinburgh ?

Answer

In order to facilitate presentation on the due date of bills payable at places outside of Edinburgh, it is agreed that such bills may be cleared in Edinburgh free of charge, provided they have not more than five days to run.

4. On Thursday, 13th January 1910, the banks in the Edinburgh Clearing House had the following balances after adding interest :—

In Favour	Banks	Against
£29,189 7 10	B. of S.	£106,039 6 5
£81,121 10 0	Royal	
£18,282 9 2	British	£28,603 8 10
£42,107 8 10	Commercial	
£28,936 13 11	National	
	Union	
	Clydesdale	
	North	£64,994 14 6

Make a statement showing how the settlement was reached. When and where were the sums paid to the Creditor Banks?

Answer

In Favour	Banks	Against	Payments	To whom paid
£29,189 7 10 81,121 10 0 18,282 9 2 42,107 8 10 28,936 13 11	B. of S.	£106,039 6 5	{ £81,121 10 0	Com.
	Royal		{ 24,917 16 5	Union
	British	28,603 8 10	{ 10,320 19 8	Clydes.
	Com.		{ 18,282 9 2	Nat.
	Nat.			
	Union			
	Clydes.			
	North	64,994 14 6	{ 17,189 12 5	Union
			{ 29,189 7 10	Royal
			{ 18,615 14 3	Clydes.
£199,637 9 9		£199,637 9 9	£199,637 9 9	

The sums were paid to the Creditor Banks in London, on the 17th January 1910.

5. A Branch Bank receives from a customer a cheque on another Bank in the same town for £100 with the request to present at once. A messenger is sent to the Paying Bank, and on hearing that the cheque is to be met he asks payment in notes. What answer would you give? Would it be the same (1) if there was; (2) if there was not a Clearing House in the place? Give reasons for your answer.

Answer

This is the subject of special Rule of the Edinburgh Clearing House.

(1) If there is a Clearing House in the town, the messenger should not be paid in cash, but should present along with the cheque a Debit Clearing House Voucher for the amount, to be signed by an official of the Paying Bank and afterwards cleared against it.

(2) In this case notes may be paid to the messenger, because

such notes are exchanged the following morning, and the Paying Bank is not inconvenienced by reason of parting with them. If it be inconvenient to pay notes, it is competent to grant to the presenting bank, free of charge, a demand draft on Edinburgh "in lieu of notes."

NOTE CIRCULATION

NOTE Circulation presents little or no difficulty to the student ; the ground to be covered is limited in extent, and the paper affords possibilities for securing the much-coveted 100%. Thus, with a little careful reading, the student may materially increase his average marks. As in another of the subjects, the whole matter hinges on a single Act, and students would, therefore, be well advised to make a special study of Sir Robert Peel's Act of 1845.

A few points worthy of special attention are the regulations with regard to exceeding the authorised circulations in the different countries, England, Scotland and Ireland ; and also the effect of amalgamation, in each of the countries, on the note issues of the various banks, or classes of banks, concerned. There are several anomalies between the Act of 1844 as applying to England and the Acts of 1845 as applying to Scotland and Ireland, all of which should be closely studied. The candidate, in addition to making himself familiar with the provisions governing stamp-duties on notes in each country, should know the number of licences required by banks of issue under the Acts referred to. Books dealing with the subject, and recommended by the Council, are " Baird's One-Pound Note " and Graham's " Note Circulation " ; either of which will be sufficient—in a general way—for the requirements of the examination ; but, as much valuable information may be gleaned from a careful reading of Kerr's " History of Banking in Scotland," and as occasionally a question occurs in this paper which might quite well be looked for in the paper on History, it is advisable that the subject be read in conjunction with the History and Present Position of Banking in Scotland.

YEAR 1906

1. In fixing the banks' authorised circulations what was the principal difference between the method adopted in Scotland and that adopted in England ? Quote the authorised circulation of any two Scotch banks.

Answer

1. The principal difference in the method adopted in fixing the authorised circulations of the two countries was that in Scotland the average circulation for the year from May 1844

to May 1845 was taken as the authorised amount ; whereas in England the average for the twelve weeks prior to 27th April 1844 was taken.

The authorised circulation of the Bank of Scotland is £343,418 (1906) and of the Royal Bank £216,451.

2. If a Bank cease to issue notes on what conditions can it resume its issue ?

Answer

If a bank once allows its note issue to lapse, it can on no account resume it.

3. What would be the effect on the respective note issues concerned in the following cases :—

- (a) An Irish issuing Bank abandons its right of issue.
- (b) An English private Bank of issue becomes a joint-stock Bank.
- (c) Three English issuing Banks amalgamate.
- (d) Two Scotch Banks amalgamate in 1906.

Answer

(a) An Irish Bank renouncing its right of issue can compound with the Bank of Ireland on such terms as may be agreed on, and the Bank of Ireland can thereafter increase its authorised circulation by the amount of the issue so surrendered.

(b) The issue would be lost so far as this bank was concerned, but the Bank of England could increase its authorised circulation by two-thirds of the amount against securities.

(c) If the three banks were private banks, and the total number of partners did not exceed six, they could combine and retain their issues; if they exceeded six all three issues would be lost. If they were joint-stock banks they could only retain one issue, and that only if one of the original names was maintained. If both private and joint-stock banks were concerned the effect would be the same as in (b).

(d) Two Scotch banks amalgamating can combine their note issues provided they get a new certificate to that effect.

4. How many licences would be required by (a) a Scottish bank with offices in 100 towns, half of which were opened in 1830 and the remainder in 1860 ; (b) an English bank with only three offices, all in London ; (c) an Irish bank with eighty branches all opened since 1850 ?

Answer

(a) In the case of a Scottish bank four licences covered all the branches opened prior to 1844, and a new one was required for every new branch opened thereafter in a town not already covered by the four existing licences. Hence 54 would be required.

(b) As no bank other than the Bank of England can issue notes in London no licences would be required.

(c) In Ireland a maximum of 4 licences covers any number of branches.

YEAR 1907

(Answer any *four* questions)

1. Explain what payments are made to Government for Stamp-Duty on notes issued by (a) a Scottish Bank, (b) the Bank of England, (c) an English Provincial Bank.

Answer

(a) The Stamp-Duty applicable to Scottish banknotes is at the rate of 4s. 2d. per £100 half-yearly. The duty is paid under a composition arrangement on the average weekly circulation, otherwise each note would require to bear an impressed stamp.

(b) The Bank of England is exempt from Stamp-Duty.

(c) English Provincial banks are subject to Stamp-Duty as in Scotland, only the rate is 3s. 6d. per £100 in place of 4s. 2d.

2. Explain how an addition can be made to the amount of the Authorised Circulation of (a) the Bank of England, (b) a Scottish Bank, (c) an English Private Bank, (d) the Bank of Ireland. If an English Bank opens an office in London, how is its authorised circulation affected?

Answer

(a) The Bank of England can add to its authorised circulation two-thirds of the surrendered issues of other English banks.

(b) A Scottish bank by amalgamation with another Scottish bank of issue.

(c) An English private bank by amalgamation with another private bank provided the number of the partners of the joint concern does not exceed six.

(d) The Bank of Ireland can arrange to take over the issues of other Irish banks, if they are desirous to abandon their right to issue notes.

If an English bank opens an office in London it has to sacrifice its right of note issue, the Bank of England having the monopoly of note-issue in London.

3. Where can payment be demanded of Bank of England Notes? It a creditor bound to accept them in payment of a debt in (a) England, (b) Scotland, (c) Ireland?

Answer

Payment of Bank of England notes can be demanded at the Bank of England, London, and in addition notes dated and issued from one of its branches are payable at those branches also.

(a) A creditor in England is bound to take Bank of England notes in payment of a debt, as they are legal tender in England,

but no notes are legal tender in Scotland or Ireland so the answer in cases (b) and (c) is No.

4. In the event of the failure of a Scottish Bank, are the noteholders in a better or worse position than the depositors? Give reasons for your answer.

Answer

In the event of failure of one of the Scottish banks registered under the Act of 1879 the noteholders would be in a better position than the depositors, as one of the provisions of the Act is that the shareholders shall be liable for the note issue in addition to the amount of their subscription. Hence noteholders would be paid in full whereas depositors would have to rank on the estate of the bank and would only draw a dividend on their claim.

5. In ascertaining the amount of Notes in circulation, how does a Bank treat those in the till of one of its Branches and those in the till of a Branch of another Bank?

Answer

In reckoning the total of its notes in circulation a bank does not treat as in circulation the amount of its own notes held in the tills of its various branches. On the other hand its notes in the hands of another banker are deemed to be in circulation, in that they have left the issuing bank and have not returned to it.

YEAR 1908

1. During last year the Caledonian Bank was amalgamated with the Bank of Scotland. The former had an authorised circulation of £53,434. Explain how this was dealt with according to law, after amalgamation.

Answer

Under the Act of 1845 the Bank of Scotland had the right of combining the issue of the Caledonian Bank with that of its own. It exercised this right, and in compliance with the statute got a new certificate for the joint issue.

2. What payments require to be made for Government Stamp-Duties on their Notes in the case of (a) the Bank of England, (b) the Bank of Ireland?

Answer

(a) The Bank of England is exempt from Stamp-Duty, but in return for this and their other special privileges they pay Government an annual sum of £180,000.

(b) The Bank of Ireland is subject to Stamp-Duty at the rate of 3s 6d. per £100 per half-year.

3. Explain how Notes may be issued to an amount in excess of the authorised circulation in the case of (a) the Bank of

England, (b) the Bank of Scotland, (c) the Bank of Ireland, (d) an English Provincial Issuing Bank.

Answer

(a), (b) and (c) can exceed their authorised circulations by any amount, provided they hold bullion in reserve equal to the excess. The penalty for failure to observe this rule is forfeiture of the excess. The bullion may consist of gold and silver, but of the silver no part exceeding one-fourth of the gold so held shall be taken into account.

(d) An English Provincial Bank cannot exceed its authorised circulation on any pretext whatever, and should it do so it will forfeit the whole amount of the excess (not the amount of the excess beyond the authorised circulation *plus* the bullion held, as in the cases above).

4. How would the respective Note Issues be affected in England in the following cases :—

(a) An Issuing Bank opening an office in London.

(b) Two Private Banks of Issue amalgamating.

(c) Two Joint-Stock Banks of Issue amalgamating.

(d) A bank without an Issue joining a Bank of Issue.

Answer

(a) The bank would have to renounce its right of issue.

(b) Both issues would require to be sacrificed if the partners of the combined institution exceeded six ; but if they did not exceed six the joint issue could be retained.

(c) In this case one issue only could be retained, and that only if one of the original names was continued.

(d) Provided that both of these were joint-stock banks, and the name of the issuing bank was assumed as the name of the joint concern it could retain its right of issue.

If both were private banks they could only retain the issue if the partners did not exceed six, and the name of the issuing bank were retained.

If one was a joint-stock bank of issue and the other was a private bank, the issue would be retained, provided that the name of the joint-stock institution was not changed.

If one was a private bank of issue and the other a joint-stock non-issuing bank the issue would be lost.

YEAR 1909

1. The London Joint-Stock Bank, which has its head office in London, is about to amalgamate with the York City and County Bank, which has its head office at York. The latter has a note issue, the former has not. The new bank is to retain the name "The London Joint-Stock Bank." State how the

amalgamation will affect the note issue, and give reasons for your answer.

Answer

Among the privileges enjoyed by the Bank of England, is the sole right to issue notes within an area of sixty-five miles of London. Further, under the Act of 1826, no English Bank of Issue is allowed to have an office within that area, hence, on the amalgamation of the above banks, the issue of the provincial bank would perforce lapse. Under the Act of 1844 the Bank of England has power to increase its authorised circulation by two-thirds of such lapsed issues against securities.

2. Where does the coin retained in security for its Note Issue by (a) The British Linen Bank, (b) The Ulster Bank Ltd., require to be held?

Answer

(a) At its head office in Edinburgh.

(b) At its head office in Belfast, or at four of its principal places of issue, not more than two being in the same province.

3. The North of Scotland Bank recently amalgamated with the Town and County Bank. How were they permitted by law to deal with their respective authorised circulations?

Answer

Under the Act of 1845 two Scottish Banks of Issue on amalgamating may combine their note issues, provided they get a new certificate to that effect. These banks availed themselves of this privilege.

4. What notes are legal tender in (a) England, (b) Scotland, (c) Ireland?

Answer

(a) In England, Bank of England notes are legal tender, except at the Bank and its branches; (b) and (c) no notes are legal tender in Scotland or Ireland.

5. Would any licence be required in the case of a Scottish bank opening a new branch this year? Would any be required by an Irish bank in similar circumstances? If so, state the amount required to be paid by each.

Answer

In Scotland, a new licence, the annual cost of which is £30, would require to be taken out, provided the branch was opened in a town not already covered by an existing licence. In Ireland no new licence would be required. Licences in Scotland are regulated by two acts, the Act of 1815, which fixed the maximum number of licences for any one bank at four, the fourth licence covering the fourth and all subsequent branches, and the Act of 1845, which provided that a new licence would require to be taken out for every branch opened, subsequent to the passing of the Act, in a town not already

covered by the existing four licences. Ireland on the other hand is regulated by the Act of 1828, which provided that the maximum number of licences required to be taken out by any one bank was four, the fourth licence covering any number of branches.

YEAR 1910

1. Describe the various books required by a head office for the regulation of its Note Issue, and show how the Cashier ascertains the notes in circulation with the public.

Answer

The books required in connection with the circulation of a bank are : Record of Unsigned Notes, Note Signature Register, Notes Issued and Cancelled, Notes Issued Register, Notes Cancelled Book, Note Circulation Book.

The Cashier makes up his weekly statement by taking the total of the notes issued outstanding from the Note Circulation Book, and deducting the bank's notes on hand at head office and branches, the total of which is got from the same book.

2. State the advantages to a bank of a Note Issue. Was note issuing more profitable to the Scottish banks in 1844 than it is to-day? Give reasons for your answer.

Answer

The chief advantage accruing to a bank in respect of its note issue is that it is a cheap form of currency to maintain. Were it not for its note issue each bank would require to stock a large amount of gold to take the place of notes as till money, and on this amount interest would be lost. Prior to 1845 a bank could issue any amount of notes without holding gold in reserve, and thus it had the use of the equivalent free of interest. Now the expense of upkeep of the gold reserve, which must never be less than the excess of the issue over the authorised circulation, is so heavy that the profit is not so great as formerly.

3. Can the authorised circulation of the following banks be increased? If so, in what manner?

- (a) Bank of Scotland.
- (b) Bank of England.
- (c) An English Private Bank.
- (d) An English Joint-Stock Bank.
- (e) Bank of Ireland.
- (f) Ulster Bank Limited.

Answer

(a) The Bank of Scotland can increase its authorised circulation by amalgamation only.

(b) The Bank of England by taking up the lapsed issues of other English banks of issue.

(c) An English private bank by amalgamation only, and that only where the combined number of partners does not exceed six.

(d) An English Joint-Stock Bank cannot increase its authorised circulation.

(e) The Bank of Ireland by amalgamation and by compounding for the issues of other Irish Banks of Issue.

(f) The Ulster Bank by amalgamation only.

4. Mention what special provision has been made in regard to liability for notes issued by banks registered as "limited." Give your opinion on the importance of this.

Answer

Any bank registering under the Companies Act of 1879 requires *inter alia* to hold its shareholders liable for the amount of the note issue in addition to their liability for the amount of their subscription. The wisdom of this provision is undoubted, as in the event of the failure of a bank a panic among the noteholders is avoided by the knowledge that the notes are to all intents and purposes guaranteed.

5. For what purpose are Bankers' Licences required? State the number of Licences required by the Scottish Banks before and after the passing of the Act of 1844.

Answer

Bankers' licences are required for the privilege of issuing notes. Prior to 1844 any number of branches were covered by four licences, but after the passing of the Act of 1844 a new licence was required to be taken out for every new branch opened in a town not already covered by the existing four licences.

INTEREST AND CHARGES

JUDGING from recent Reports of the Institute this subject does not receive sufficient attention from the average candidate. The explanation is probably to be found in the fact that many trust solely to the knowledge of charges that they have acquired in ordinary business routine, and so neglect to make a special study of the details of the subject. The ground to be covered is by no means extensive, but the candidate will not be sure of success until he thoroughly masters the whole Table of Charges—for the most part committing the sections to memory. The subject is not, however, bounded merely by the Table of Charges: it comprises a wider field, as it presumes a knowledge of the different classes of banking transactions coming under review. The use of a hand-book explanatory of the matter is therefore advisable, and either Laurie's or Hunter's will be found useful. Both analyse the different sections of the Table in a simple and instructive manner.

The questions should be answered as concisely as is compatible with accuracy and clearness, and all superfluous illustrations and explanations should be avoided; but, of course, when examples and reasons are asked for they must be given. In the following pages the answers will be found to be somewhat full. This is not so much to guide the student for the actual solution as to indicate the calculations leading up to each answer.

YEAR 1906

1. On what cheques is no commission chargeable when payable in (a) Scotland, (b) England, (c) Ireland?

Answer

(a) If payable in the same town; or drawn on another office of the same bank, and presented by the drawer, members of his family, or persons exclusively in his employment.

(b) If payable in London, or payable in a provincial town and sent through London and credit delayed for four business days.

The above exemptions apply only to Scotland and England respectively, but the following apply to (a), (b) and (c) equally:—

Cheques drawn on church accounts in favour of clergymen or teachers; cheques O.H.M.S., or payable to Collectors of Revenue as such; and cheques in favour of religious or charitable institutions.

2. You receive from a firm of merchants in Dublin a cash order for £15 drawn by them on a party in your town, and the drawers request you to collect the amount and remit it to them by draft on Dublin. Give details of your charges (a) if the sum is paid without your having to present the order, (b) if you required to present it before obtaining payment.

Answer

(a) If the cash order is paid without presentation being required the charge is restricted to that for the remittance draft—viz. 7d. (at the rate of 1s. 6d. per cent. Min. 7d.—Commission 6d., Stamp 1d.).

(b) If presentation is required the minimum charge for collecting cash orders is chargeable in addition—viz. 1s.

3. Give the rules governing the allowance of Compensating Interest, and state what class of advances is specially excluded from such an arrangement.

Answer

(a) No Compensating Interest is allowed except when the bank is legally entitled, at any time, and without notice, to apply the creditor balance in payment of the overdraft.

(b) No sum bearing Compensating Interest can be placed on deposit receipt; all such accounts must be kept in the Current Account Ledger.

(c) In no case can Compensating Interest be allowed without the sanction of head office.

(d) Inoperative loans for fixed periods are excluded from any arrangement for Compensating Interest.

(e) Compensating Interest is not allowed on the creditor balance of a principal against the unauthorised overdraft of a factor or agent; and executors or their law-agents are not allowed overdrafts without interest against balances at credit of deceased customers' current accounts.

4. What sum would you charge for commission on a bill for £2000 payable in Belfast (a) on discounting it, (b) on its being returned unpaid, (c) on recalling it?

Answer

(a) The rate of 2s. 6d. per cent. applies to discounted Irish bills, therefore £2, 10s. would be charged for this transaction.

(b) The rate of 5s. per cent. is exacted on similar documents dishonoured. The charge for this part of the transaction would therefore be £5, with interest due.

(c) In the case of similar bills recalled for *non-acceptance* only, the charge is discretionary; otherwise, a charge of 1s. 6d. per cent. is exacted, which on £2000 is £1, 10s.

5. State the rate of commission on the following :—

(a) Bills payable in Australia lodged for collection.

(b) Bills cashed by one bank to another four days before maturity.

(c) Deposit Receipts cashed at another office of the same bank.

(d) Payments in London against shipping documents.

Answer

(a) In this case the charge would be 5s. per cent if the bank was relieved of the responsibility for due payment of the remittance draft, and 10s. per cent. if not so relieved.

(b) Banks cash such documents among themselves free.

(c) Deposit Receipts in these circumstances are cashed free, provided ten days have elapsed from the date of issue, otherwise they are charged the rate applicable to cheques—viz. 1s. 3d. per cent.

(d) Where payments are *made* in London against shipping documents the rate of commission is 1s. per cent.

6. Give the amount of commission on each of the following :—

(a) A cheque on Oxford for £1500 cashed, and sent to London for negotiation.

(b) £300 paid in by a customer to be advised to his credit at London office.

(c) A cheque on Berwick-on-Tweed for £100 returned unpaid.

(d) Two coupons for £50 each, payable in Berlin, lodged for collection.

Answer

(a) English provincial cheques are charged at the rate of 1s 3d. per cent. = 18s. 9d.

(b) For transfers to London office 1s. per cent. is charged = 3s.

In cases of London transfers the "personal" exemption does not apply. The transaction would, however, pass free if credit in London were postponed for ten days.

(c) Berwick-on-Tweed, in questions of commission, is treated as a Scottish town. The charge would, therefore, be 2s 6d. if the document was cashed and 1s. 3d. if lodged for collection.

(d) Coupons payable on the continent of Europe are charged at the rate of 2s. 6d. per cent., *plus* any incidental expenses. The charge would therefore be 2s. 6d.

YEAR 1907

1. State the amount of commission chargeable on each of the following—viz. :

(a) A discounted bill for £116 payable in London returned dishonoured.

- (b) Retiring a bill in London for £40.
- (c) A sum of £200 paid in by a party in Glasgow for their credit at a Bank in Liverpool.
- (d) A cheque which has been cashed payable in Dublin for £500 returned unpaid.

Answer

(a) Bills discounted, payable elsewhere than in Scotland and returned dishonoured are charged at the rate of 5s. per cent. The charge would therefore be 5s. 10d. *plus* any interest due.

(b) For retiring bills in London the rate is 1s. 6d. per cent. with a minimum charge of 1s. for each document. The charge in this case is therefore 1s. *plus* interest if the amount has *not* been previously lodged to meet the retiral of the bill.

(c) Drafts and transfers on English correspondents are charged at the rate of 1s. 6d. per cent. The charge would therefore be 3s.

(d) The rate exigible for such documents cashed and returned dishonoured is 5s. per cent. The charge would therefore be 25s.

2. State the various cases in which the following are exempt from commission :—(a) Cheques cashed, (b) Drafts issued.

Answer

(a) See answer to question (1) Year 1906.

(b) *Drafts on Scotland* are issued free of commission—

(1) If purchased by, or in favour of collectors of revenue as such.

(2) If purchased by customers personally, by members of their families or by persons exclusively in their employment, for their credit at another branch of the same bank.

(3) If payable in the town of issue.

Drafts on London are issued free of commission

(1) If payable at 7 days' date (*ad valorem* stamp-duty charged).

(2) If payable at 14 days' date (free of all charge.)

(3) If for remittance of Customs Revenue and drawn at 7 days' date (without days of grace).

Applicable to all drafts.

If drawn in favour of Religious or Charitable Institutions.

3. What is meant by the following expressions—viz :—
(a) Special discount rates, (b) Members of their families.

Answer

(a) Special rates are sanctioned by the head offices and are only allowed to customers of good standing, on their London bills drawn on first-class houses. Generally speaking the rate is $\frac{1}{2}$ per cent. lower than the ordinary mercantile rate.

(b) By the expression "Members of their families" is meant members of the customers' families usually residing with them.

4. What is the rate of commission chargeable on each of the following :—

- (a) Bills on England recalled for non-acceptance only.
- (b) Coupons cashed payable in South Africa.
- (c) Delivery in London of Shipping Documents or Stock Transfers on receipt of value.

Answer

- (a) In this case the rate is discretionary.
- (b) Coupons payable abroad, except on the continent of Europe, are charged at the rate of 5s. per cent. with expenses.
- (c) Where the money is *received* in London the rate of 6d. per cent. is exacted.

5. A customer of a bank in Edinburgh hands the bank for collection two Cash Orders each for £27 payable in St Petersburg and Bombay respectively. The former is returned dishonoured and the latter is paid on presentation. What charge would you make in each case?

Answer

(a) Cash Orders payable on the continent of Europe are charged at the rate of 2s. 6d. per cent., with any expenses incurred, whether the documents are paid or dishonoured. In the case of the St Petersburg Cash Order the minimum charge of rs. would therefore be made.

(b) Cash Orders payable elsewhere than on the continent of Europe are charged at the rate of 5s. per cent. if the collecting bank is relieved of all responsibility for the due payment of its correspondent's remittance draft and 10s. per cent. if not so relieved. The Bombay Cash Order would therefore be charged rs. 4d. or 2s. 8d. according to the arrangement come to.

6. In the event of a loan, the interest on which is payable in advance, being renewed on a day on which the bank-rate is changed, at what rate should interest be charged?

Answer

Any fixed loan made or renewed on a day when the bank-rate is changed, is charged the appropriate rate following upon such change.

YEAR 1908

1. State the amount chargeable on each of the following :—

- (a) A cheque for £175 on the head office of the Bank of England, London, cashed.
- (b) A similar cheque which has been lodged for collection returned unpaid.

- (c) A cheque for £2000 on Royal Bank, Glasgow, cashed by the drawer at Bank of Scotland, Edinburgh.
- (d) Issuing a draft on London for £100 payable at 7 d/d.

Answer

(a) No charge would be made, as cheques on London are cashed free of charge.

(b) In this case commission at the rate of 2s. 6d. per cent. would be exacted which would amount to 4s 4d.

(c) The commission on Scottish Cheques is at the rate of 1s. 3d. per cent with a maximum of 15s. The maximum would therefore be charged.

(d) Drafts on London at 7 days' date are charged the *ad valorem* stamp-duty: in this case 1s.

2. State whether or not you would allow Compensating Interest in each of the following cases. Give the reason for your answer to (d) :—

- (a) An overdraft to a company against a sum at their credit deposited to meet their Dividend Warrants.
- (b) An inoperative loan against a Credit Balance on current account.
- (c) An overdraft to the executors of a deceased customer against the balance at credit of that customer's current account.
- (d) An overdraft to "John Brown" against a credit balance in name of "John Brown in trust."

Answer

(a) No.

(b) No.

(c) No.

(d) No. Before a bank will allow the benefit of compensating rates, the accounts must be in the same names and the bank must be legally entitled at any time without notice to apply the creditor balance in reduction of the debtor balance. As John Brown is obviously not the owner of the funds at credit of the trust account, the bank could not legally compensate the accounts, and therefore could not allow compensating rates.

3. You receive from a customer ten coupons, each for £5, payable in London, and he requests you to place their value, less charges, to his credit. State the sum you would put to his credit, and show how it is arrived at.

Answer

Provided the coupons were all of the same issue they would

be treated as one transaction, and commission at the rate of 2s. 6d. per cent. on the total would be charged.

10 coupons @ £5 each	=	£50	0	0
Income Tax @ say 1s. per £1	=	2	10	0
		47	10	0
Less Commission			1	2
Amount to be credited to A's Account		£47	8	10

4. A customer who is in the habit of accepting bills payable in London desires to pay you at the end of the year the commission for your retiring same. Assuming the total amount of these bills to be £200,000, what would be the lowest sum you could charge?

Answer

The commission for retiring bills accepted payable in London is at the rate of 1s. 6d. per cent. In the event of the total acceptances of any one customer for one year exceeding £100,000, commission at 1s. per cent may be charged on the excess.

Thus he would be charged £100,000 @ 1s. 6d. per cent.	£75
and ,, ,, £100,000 @ 1s. per cent.	£50
Together	£125

5. Give the rate of commission on each of the following :—

- Bills on Durban lodged for collection and paid.
- Similar bills returned dishonoured.
- Bills cashed by one bank to another four days before maturity.

Answer

(a) Foreign bills lodged for collection are charged at the rate of 5s. per cent. if the collecting bank is relieved from responsibility for the due payment of its correspondent's draft, and 10s. per cent if it is not so relieved.

(b) If dishonoured 5s. per cent. would be exacted.

(c) Banks cash bills, not having more than 5 days to run, amongst themselves free. The reason for this rule is to ensure their due presentation.

6. If a customer hand you a receipted account or cash order against a party in London, what charge would you make in the following cases :—

- (1) (a) If paid in to your customer's credit, (b) and returned dishonoured.
- (2) (a) If lodged for collection and paid, (b) if lodged for collection and unpaid.

Answer

(1) (a) The charge for cashing Cash Orders payable in London is 2s. 6d. per cent. Minimum 1s. (b) For similar documents cashed and returned dishonoured, the charge is also 2s. 6d. per cent. with minimum of 1s. (plus Interest).

(2) (a) and (b) In either case there would be one charge at the rate of 2s. 6d. per cent. 1s. being the minimum.

Cash Orders drawn on stockbrokers in London with accompanying documents are negotiated at 6d. per cent., whether cashed or lodged for collection.

YEAR 1909

1. Quote the rate of commission (stating minimum, maximum etc.) charged on granting Drafts payable in (a) Scotland, (b) Manchester, (c) Dublin. State the cases in which those on Dublin would be granted free of commission.

Answer

(a) The commission for granting drafts on Scotland is at the rate of 1s. per cent. The minimum charge for sums of £5 and under is 3d. and for sums above £5 and under £10, 4d. In these cases the stamps are not charged for. For sums above £10 the minimum charge is 6d. and the maximum 10s. (the stamps to be charged in addition).

(b) and (c) The commission for granting drafts on Manchester and on Dublin is at the rate of 1s. 6d. per cent; the minimum charge in either case being 6d. (stamps to be charged in addition).

In neither case is there a maximum charge.

Drafts on Dublin will be granted free of commission when drawn payable in favour of religious or charitable institutions.

2. Would commission be charged on a Deposit-Receipt for £200 issued by the Glasgow office of a bank cashed at an Edinburgh branch of the same bank? If so, state the amount and the object in making such a charge.

Answer

Should 10 days have elapsed from the date of issue of the receipt the transaction would pass free. If 10 days had not elapsed the usual charge for cheques would be exacted—viz. 2s. 6d. (1s. 3d. per cent.). The reason of this rule is to prevent the evasion of the charge for transfers, by debtors remitting deposit receipts in favour of their creditors, instead of transferring the money in the ordinary way, or by remitting a draft.

3. What sum would you charge for commission on a Liverpool cheque for £1000—

(a) If cashed and negotiated through London?

- (b) If payment be delayed for four days?
- (c) If cashed and negotiated direct?
- (d) If lodged for collection and returned dishonoured.

In calculating commissions how are fractional parts of a penny dealt with?

Answer

(a) The charge for English Provincial cheques is 1s. 3d. per cent. which on £1000 would amount to 12s. 6d. There is no maximum charge.

(b) If payment be delayed for four business days the transaction would pass free.

(c) If cashed and negotiated direct at the request of the customer the charge would be 25s. (at the rate of 2s. 6d. per cent.).

(d) If lodged for collection and returned unpaid one charge at the rate of 2s. 6d. per cent. would be made. This would amount to 25s.

In calculations of commission a fraction of .5, or less, of a penny is ignored, whereas above .5 is treated as a penny.

4. Assuming that rates for the last six months have been as follows:—

Bank of England Rate	.	.	.	2½ per cent
Discount on Bills not above 2 months	.	3	„	
„ above 2 months	.	3½	„	
„ Accommodation Bills	.	5	„	
Interest on Cash Accounts	.	.	.	4½ „
„ Overdrafts	.	.	.	5 „
„ Deposit-Receipts	.	.	.	1 „

—what would be the rate of each of the following:—

- (a) Interest on an inoperative loan granted 1st February for two months, interest payable in advance.
- (b) Rebate on above loan paid off to-day.
- (c) Interest on an inoperative loan to a public body for three months, interest payable in advance.
- (d) Discount on a local bill with a currency of seven months.

Answer

Having regard to the above rates the interest applicable to the various items would be as follows—viz.

- (a) Short loans are granted at local bill rates for similar periods. Here 3 per cent.
- (b) Rebate is allowed at ½ per cent. above the current deposit receipt rate, but in no case at a higher rate than that at which the loan was granted. In this case it would be 1½ per cent.
- (c) The minimum rate for such advances is applicable—viz. 4 per cent.

- (d) Bills having more than six months to run are treated as accommodation bills, and the minimum rate on these is 5 per cent.

5. Give the various alternative rates of commission charged on acceptances by a bank of foreign bills payable in London.

Answer

Banks are in the habit of accepting foreign bills payable in London at a rate of 2s. 6d. per cent. with interest due, if the amount of the bill is specially deposited to meet it. If otherwise secured, 5s. per cent. with interest is charged.

6. What would be the commission on a sum of £1580 transferred by advice to London office? In what circumstances would it be transferred free of charge?

Answer

The rate for London transfers is 1s. per cent., no maximum. The charge would therefore be 15s. 10d.

The transaction would be carried through free of charge, if credit in London were postponed for ten days.

YEAR 1910

1. State the various cases in which English cheques are cashed free of charge.

Answer

The following cheques would be cashed free :—

- (a) Cheques drawn on London Bankers within the Town or Metropolitan areas.
 - (b) English Provincial cheques, where they are lodged for collection, and credit delayed for four business days.
 - (c) Cheques on Church Accounts payable to clergymen or teachers.
 - (d) Cheques drawn in favour of religious or charitable institutions.
 - (e) Cheques on forms issued by any Government department.
 - (f) Cheques in payment of public revenue and in favour of officials duly authorised to collect it.
2. Give the rate of commission on—
- (a) Cheques against Credits with London correspondents.
 - (b) Bonds payable in Scotland.
 - (c) Drafts on demand drawn in Scotland against Circular Letters of Credit issued abroad when free payment has not been specially arranged for.

Answer

- (a) The charge for drafts—viz. 1s. per cent.—would be made.

(b) The same rate as is applicable to cheques—viz. 1s. 3d. per cent. (except when payable in town where cashed).

(c) The charge on drafts drawn in Scotland against such foreign Letters of Credit is 2s. 6d. per cent. with a minimum charge of 6d. per draft.

3. State the amount of commission chargeable on the following :—

- (a) Granting a draft on Berwick-on-Tweed for £100.
- (b) A bill on Liverpool for £100 lodged for collection.
- (c) A coupon for £25 payable in Paris.
- (d) A discounted bill for £216 payable in London returned dishonoured.

Answer

- (a) In questions relating to commission, Berwick-on-Tweed is treated as a Scottish town : the charge is therefore at the rate 1s. per cent, hence 1s. (*plus* stamp).
- (b) 2s. 6d. per cent. whether paid or dishonoured.
- (c) 2s. 6d. per cent. (7d.)
- (d) 5s. per cent. (10s. 10d.) *plus* interest.

4. Would you allow Compensating Interest in the following cases :—

- (a) On a sum on Deposit Receipt against an overdraft in the same name ?
- (b) On a sum at credit of a customer who is dead against an overdraft granted to his trustees ?

Answer

- (a) No. No sum bearing Compensating Interest can be placed on Deposit Receipt.
- (b) No. Executors are not allowed overdrafts without interest against balances at credit of deceased persons' accounts.

5. You granted a fixed loan on 1st February last for two months at 4 per cent. Assuming the loan was repaid on Monday of this week, at what rate would you calculate rebate ?

Answer

On repayment of a loan, rebate, at the rate of $\frac{1}{2}$ per cent. above the current Deposit Receipt rate, is allowed.

The deposit rate on 7th March was $1\frac{1}{2}$ per cent. and rebate would therefore be calculated at 2 per cent.

6. What special rule is applicable to the rate of discount on bills of a longer currency than six months ?

Answer

Where a bill has a longer currency than six months it is treated as an accommodation bill, for which class of documents the rate is never less than 5 per cent.

NEGOTIATION OF BILLS AND CHEQUES

THERE is but one way to master this subject, and that is to digest section by section the Bills of Exchange Act of 1882. The subject is an important one, as apart from its legal aspect it is in effect decidedly practical.

The daily business of every bank office is to a large extent governed by the provisions of this Act. The requisite percentage of marks (50) is a very moderate one, and no student who has really studied the Act in the prescribed form should have any fear of the result. Yet we find that on a recent occasion one-third of the total number of failures was due to this subject alone. Evidently the matter presents difficulties to the candidate, and it is believed that the following hints will prove of value. From the outset a thorough knowledge of the technical terms used throughout the Act is requisite, and there is no use in proceeding till this preliminary duty has been performed. The next step should be to draw out a specimen copy of a bill and mark against the names of each of the parties appearing on it his capacity—*i.e.* drawer, drawee, etc.—then proceed to follow the gradual working out of the Act.

Its arrangement is clear, its style simple, and the object of its framers has been to regulate the negotiation of the bill from its inception till payment, or non-payment as the case may be, and in the event of the latter to state clearly the legal steps necessary for recovery of the amount.

All the important sections should be carefully noted, and where possible committed to memory, especially those dealing with presentment for acceptance; presentment for payment; and the rules governing notice of dishonour. Other essential points are the various kinds of acceptances and endorsements; the rights and liabilities of all parties to a bill; and all provisions relating to crossed cheques.

The necessary text-books for this subject are few. In fact the candidate need only have a copy of the Act before him, but should he wish any explanatory matter, he has an excellent treatise on the subject in M'Neil's "Bills of Exchange, Cheques, and Promissory Notes."

Above all, let the note-book play a prominent part, and let the notes be copious.

YEAR 1906

1. Are the following documents, or any of them, valid or invalid :—

- (a) Cheque post dated.
- (b) Bill dated on a Sunday.
- (c) Bill accepted by the mark (duly witnessed) of a person who cannot write.

Answer

(a and b) A bill or cheque is not invalid by reason only of its being post dated, or dated on a Sunday.

(c) Where a person cannot write, and it is proved that his customary method of signing bills is by mark, such action is valid, though not good for Summary Diligence.

2. What are the respective due dates of the following bills :—

- (a) Drawn " On 5th April 1906 I promise to pay."
- (b) Dated 1st January 1906 drawn payable 3 months after date, and accepted " payable on 4th April 1906."
- (c) Dated 31st December 1905 and payable 2 months after date.

Answer

- (a) This P/N is due on 8th April 1906.
- (b) This bill is due on 7th April 1906.
- (c) This bill is due on 3rd March 1906.

3. A foreign bill drawn payable 30 days after sight is presented by a bank for acceptance on 10th January, and is handed back to them sighted as of 12th January. What should the bank do ?

Answer

This constitutes a qualified acceptance, and if the bank cannot get the bill accepted as of the date of presentation, they should treat it as dishonoured by non-acceptance.

4. What constitutes the crossing of a cheque, and what is its effect ?

Answer

A crossing on a cheque consists of two parallel transverse lines on the face of it, with or without the addition of the words "and company" or any abbreviation thereof.

The general effect of crossing a cheque is to throw the responsibility of due payment on the banker who cashes it.

5. What is the object of noting a bill for non-payment, and when should it be done ?

Answer

The object of noting a bill is to preserve the right of doing

Summary Diligence, by preserving a record of the fact of its due presentment, and dishonour. The bill requires to be noted on the day of dishonour.

6. Frame a Pro. Note for £150 payable in three equal instalments at 3, 6, and 9 months after date. What stamp-duty does it require?

Answer

£150

Edinburgh, 12th April 1906.

By equal instalments at 3, 6, and 9 months after date, I promise to pay John Jones, within the United Bank, Edinburgh, the sum of one hundred and fifty pounds stg. for value received.

PETER BROWN.

The stamp-duty applicable to the note is 2s.

YEAR 1907

1. What is the Stamp-Duty on the following inland bills :—

(a) A bill payable on demand, £100.

(b) A bill payable three days after date, £100.

(c) A bill payable three days after sight, £100.

Would the stamp-duty be the same in the case of promissory notes?

Answer

In each of these cases the Stamp-Duty is one penny. The Stamp-Duty on Promissory Notes is always *ad valorem* and would therefore be one shilling in each case.

2. Do the words "not negotiable" in addition to the crossing on a cheque imply any limitation of the negotiability of the cheque? If not, what do they mean?

Answer

The addition of the words "not negotiable" to the crossing of a cheque does not imply any limitation of the negotiability of the cheque; but the person who takes such a cheque cannot acquire, or give, a better title to it, than the person from whom he received it had; thus the transferee cannot become a "holder in due course" of it.

3. What are the essentials of a Bill of Exchange?

Answer

The essentials of the Bill of Exchange are:

(a) It must be in writing.

(b) It must contain an unconditional order to pay.

(c) It must be addressed by one person to another.

(d) It must be signed by or on behalf of the drawer.

(e) The time of payment must be certain.

(f) The order must be to pay in money.

(g) The bill must be payable to bearer or to the order of a specified person.

(h) It must be stamped.

4. Where a bill for acceptance is addressed to two or more drawees who are not partners, must presentment be made to them all?

Answer

A bill must be presented for acceptance to all the drawees, unless one has authority to accept for them all, in which case presentment to him is sufficient.

5. When payment of a bill is refused by the acceptor on the morning of the last day of grace, is the holder entitled at once to give notice of the dishonour to the drawer and the endorsers? Has he any right of action against either the acceptor or the other parties to the bill until the expiration of that day?

Answer

An acceptor of a bill has the whole of the last day of grace on which to make payment. While the holder is entitled at any time on the last day of grace to give notice of dishonour to the drawer and endorsers, he has no right of action against them until the expiration of that day.

6. What do you understand by a stale cheque, and what course would you pursue before paying such?

Answer

A stale cheque is one which is "out of date," otherwise one which on the face of it appears to have been in circulation an undue time. Before paying such a cheque a banker would refer the matter to his customer. What period constitutes an unreasonable length of time is purely a question of circumstances, but in general practice the delay of several months in presenting it for payment would probably be sufficient to warrant dishonour.

YEAR 1908

1. Is the validity of a bill affected by reason of its being issued (a) post dated, (b) dated on a Sunday, (c) without a date?

Answer

A bill is not invalid by reason that it is (a) post dated (b) dated on a Sunday, or (c) issued undated. In the last case the holder may insert what he deems to be the true date, and the bill shall be payable accordingly.

2. Distinguish between a general and qualified acceptance of a bill. It is competent for a holder to refuse to take a

qualified acceptance, and to treat the bill as dishonoured by non-acceptance?

Answer

A general acceptance of a bill is one which accepts the bill without qualification.

A qualified acceptance is one which varies the original terms of the bill.

A holder is not bound to take a qualified acceptance, and if he cannot get an unqualified acceptance may treat the bill as dishonoured by non-acceptance.

Before taking a qualified acceptance it is imperative that the holder gets the consent of all the other parties to the bill, otherwise they will be discharged from their liability.

3. What is the meaning of the phrases (a) "at Exchange as per endorsement," (b) "in case of need" on a Bill of Exchange?

Answer

(a) Where bills are drawn on foreign countries in sterling and payable "at Exchange as per endorsement," they are sent to London for sale, and the rate at which they are sold is endorsed on the bill. The bill is then treated as so much foreign money. The drawer should advise the drawee of the rate at which the bill was sold, thereby enabling him to make due provision for its payment.

(b) "In case of need apply to A. B. for C. D." This reference is not met with in usual practice, but sometimes appears on foreign bills. The meaning of the term is that in the event of C. D. failing in any of his duties, such as accepting or paying the bill, the holder should apply to A. B., who undertakes to attend to the bill on behalf of C. D. and thus save the expenses of dishonour or return.

4. Mention the different methods by which a bill may be discharged.

Answer

A bill may be discharged by

- (a) Payment in due course.
- (b) Novation, which is a substitution of another obligation for the existing one.
- (c) Delegation, which is a change of debtor.
- (d) Cancellation, where the holder intentionally cancels the signatures.
- (e) Renunciation, where the holder renounces his claim.
- (f) Confusion, where the acceptor becomes the owner of the bill in his own right.
- (g) Compensation, where the debtor has the legal right of setting off another debt against the bill.

- (h) Prescription, which is a legal presumption of payment, following on the expiry of a certain number of years—in the case of bills, six years.

5. Would a banker incur any risk in receiving from a stranger, for the purpose of opening an account, a cheque crossed generally? Would it make any difference if the cheque were sent for collection and the account opened with the proceeds?

Answer

In the event of payment having been made to a wrong party, the banker, in either of the above cases, would render himself personally responsible, as he does not come within the protection afforded bankers by the Crossed Cheques Act of 1906, which only makes provision for dealings with *customers*.

6. From what date does the interest run in the case where a bill is expressed to be payable with interest?

Answer

In such a case interest would commence to run from the date of the bill, or if undated from the date of issue thereof.

YEAR 1909

1. Where a bill bears a restrictive endorsement, what are the rights and powers of the indorsee?

Answer

Where a bill or cheque has been restrictively endorsed, the holder of it has only a right to deal with it in such a manner as can be inferred from the endorsement.

Hence where a bill is endorsed to the X Bank for collection, the powers of the X Bank, as regards dealing with the bill, are limited to collecting the amount: they could not, for instance, re-discount it.

2. Is it necessary, in order to preserve recourse against the drawer or endorser, to note or protest an inland bill? If not, why is it done?

Answer

It is not necessary to note or protest an inland bill merely to preserve recourse against the parties liable on it. The bill is only noted or protested as a first step towards the execution of Summary Diligence.

3. What liability does a person incur, and to whom, in signing a bill "per aval"?

Answer

The signature of a person who signs a bill "per aval" is, as regards liability, equivalent to that of an endorser, and as such the signer would be liable to all subsequent parties to the bill.

4. What are the rights of the payee of a cheque, payment of which has been countermanded?

Answer

The payee of a countermanded cheque has a right of recourse against the drawer of the cheque; and presentment of the cheque, to the banker on whom it is drawn, acts as an assignation of the funds at credit of the account against which the cheque is drawn: nor would the banker be safe in parting with such funds, until the payee had renounced his claim against them.

5. Are the following valid endorsements:—

- (a) John Jones & Co, endorsed Jones & Co.
- (b) Jones Bros. endorsed John Jones & Tom Jones.
- (c) John Jones, Senior, endorsed John Jones.

If not, give the correct discharge.

Answer

(a) Such an endorsement is irregular. Obviously John Jones & Co. and Jones & Co. might be different firms; therefore John Jones & Co. is the correct endorsement.

(b) Here it is evident that the cheque is payable to the firm of Jones Bros., and not to the individual partners of the firm, hence the endorsement is wrong. The endorsement Jones Bros. is all that is required.

(c) As John Jones, Senior, does not necessarily require the additional designation of "senior" to describe him, his endorsement as John Jones would be sufficient.

6. Is Summary Diligence competent upon a cheque?

Answer

While it has not been legally decided whether Summary Diligence is competent on a cheque—though it is generally believed that it is incompetent—a protest made is *prima facie* evidence of dishonour, and as such is of importance in any question relating to the payment of the cheque.

YEAR · 1910

1. When the acceptor of a bill becomes bankrupt during its currency, is it still incumbent on the holder to present it for payment when due?

May the above bill be protested before maturity? If so, for what reason?

Answer

Where the acceptor of a bill becomes bankrupt during the currency of the bill, the holder is not excused from presenting it for payment when it falls due. He has, however, the right of protesting the bill before maturity, for better security—e.g. by using arrestments, etc.

2. Explain the terms of 1st, 2nd and 3rd of Exchange.

Answer

Where bills are drawn in a set, each one is numbered, and bears a distinct reference to the others, the whole set constituting one bill.

Thus where the set consists of three bills they would be numbered 1st, 2nd and 3rd of Exchange, one only being paid.

Only foreign bills are drawn thus, the reason for the practice being to ensure due arrival of the bill at its destination, the various parts being sent under separate cover, and in some cases by different mails.

3. What is considered a material alteration in a bill, and what is the effect?

Answer

Where an important alteration is made on a bill, without the consent of all the parties to the bill, such as altering the date, term, or amount, such change is known as a material alteration and has the effect of invalidating the bill. On the other hand any unimportant change, which is obviously a mere correction, is not considered a material alteration.

4. What is a documentary bill, and what advantages does it offer a holder?

Answer

Documentary bills are those drawn by merchants against produce shipped by them. For the safety of the holders the bills have the documents for the produce attached to them, so that the *bona fide* holder of the bills has a collateral security over the goods till the bills are paid.

5. When a bill has been dishonoured by non-payment, notice of dishonour must be given to the drawer and each endorser within a reasonable time thereafter. What is deemed a reasonable time (a) where the person giving and the person to receive notice reside in the same place, (b) where they reside in different places?

Answer

(a) Where the person giving, and the person receiving the notice of dishonour of a bill reside in the same place, notice is deemed to have been given in proper time if it is despatched so as to arrive any time on the day following dishonour.

(b) Where the parties reside in different places notice is deemed to be timeous if it is despatched on the day following dishonour, or, if there is no convenient post on that day, in time to catch the next post thereafter.

6. When a banker has funds belonging to a customer, but insufficient in amount to meet a cheque drawn upon the account, may he pay over the credit balance to the presenter? If so, on what condition?

Answer

Where a banker has refused payment of a cheque on the grounds of insufficient funds in his hands to meet it, he may pay over the amount attached by the presentation of the cheque on getting delivery of it; but it is advisable that he should obtain a separate stamped receipt for the amount so paid.

HISTORY AND PRESENT POSITION OF BANKING IN SCOTLAND

ONE book is essential here—A. W. Kerr's "History of Banking in Scotland." This work deals in a complete and interesting manner with the whole subject.

The same author's "Scottish Banking," which deals with the period of published Balance-Sheets, *may* be consulted, and it is well to know something about the figures of recent Balance-Sheets; but it is for the student, after acquainting himself with the nature of the questions that have hitherto been asked, to set himself to master the "History."

(Those who wish to pursue their reading on this subject further will find Graham's "History of the One Pound-Note" an extremely interesting *résumé* of the story of Scottish Banking.)

YEAR 1906

1. Give the dates of the establishment of the existing Scottish banks, their paid-up capital and their present authorised note circulation.

Answer

As such particulars and figures get out of date, they are not given here. Candidates are advised to acquaint themselves with up-to-date information such as is asked for in this question.

2. Narrate the circumstances connected with the establishment of the Commercial Bank of Scotland.

Answer

The Commercial Bank of Scotland, dating from November 1810, was from the first a joint-stock concern, but was not incorporated until 1831. The paid-up capital at the outset was £450,000, and from the first the bank appears to have experienced great success. Its establishment took place at an opportune time. The old Edinburgh public banks were "thirled" to the system of private banking: private bankers sat on their directorates, kept accounts with them and too often used the banks' resources for their own aggrandisement rather than in the interests of the commercial community, who found the intervention of the private banker a considerable inconvenience. It was a rule of the Commercial Bank that

no private banker could hold the office of director; and it was the attitude of the new bank in this connection that won for it so early a large measure of popular favour—at the same time marking the close of the career of the private banker.

3. Tell briefly all you know about the Cash Credit System.

Answer

A Cash Credit is an advance granted by a bank to a party who gives as security a bond containing the personal obligation of himself and a friend or friends, with or without the conveyance of heritable or moveable property. The bond states that the advance has been granted to all the co-obligants, who are jointly and severally liable for repayment of the debt; while only the principal debtor (for whose benefit the credit has been arranged) is to operate on the account.

The account itself is in all respects like a current account; the balance may fluctuate from day to day, and may be a credit one. Interest is charged on the daily balance at $\frac{1}{2}$ per cent. lower than the rate for overdrafts on current account.

The Cash Credit system is peculiar to, and has been an important feature of, Scottish banking. It dates from 1728, when the Royal Bank, finding money accumulating in their hands, devised this means of extending credit to the public—usually to men engaged in commerce, who had little or no capital of their own, but who could command the support of men of substance. The system has played a very considerable part in the development of Scottish industries and the prosperity of the banks.

The Cash Credit Bond has in recent times been to a large extent superseded by the use of the Letter of Guarantee.

4. Explain what is meant by the “Monopoly of the Scottish Banks,” and show how it arose.

Answer

The Scottish Banks do not, theoretically or actually, enjoy an absolute monopoly of banking in Scotland: it is open to any English or foreign bank, or to a new bank, to commence operations in Scotland at any time. Scottish banks, however, are in possession of certain privileges, in that the Act of 1845 not only fixed the authorised circulation of the existing banks, but decreed that in future no bank of issue could be established in Scotland. The result is that any new venture in the field would be handicapped in respect of note issue as compared with the banks presently existent; and it is to this extent only that the term “monopolists” can be applied to these banks. As a matter of fact, Colonial banks employ deposit agents in Scotland, and English “banks” of a nondescript class have made themselves at home.

5. Give the dates of the chief Acts of Parliament affecting Banking in Scotland, and indicate their objects.

Answer

1695.—Act incorporating the Bank of Scotland.

1719.—Act incorporating the Equivalent Company.

1765.—Act dealing with the "Option Clause," summary diligence on notes, and notes for sums less than 20s.

1797.—Issue of fractional notes legalised: this provision held for two years.

1800.—Stamp Act included for first time duties on notes.

1808.—Licences for issue of notes levied for first time.

1815.—Stamp Act further raised duties on notes and licences.

1844.—"An Act to regulate the Issue of Banknotes in Scotland."

1853.—Stamp Act authorised Revenue Authorities to compound with Scottish banks for duty on circulation.

1867.—Leeman's Act: aimed at prevention of speculation in Bank Stock.

1879.—Companies Act, providing for a system of reserve liability; taken advantage of by all the unlimited Scottish banks on the basis of having a subscribed capital five times as large as their existing paid-up capitals.

1882.—"Bills of Exchange Act."

6. Give a short history of the City of Glasgow Bank.

Answer

The City of Glasgow Bank was established in 1839, with a nominal capital of £750,000, of which £656,250 was paid up by the middle of 1841. From the outset the bank pursued an "advanced" policy, actively extended its branch system, and succeeded in acquiring a large degree of popular favour. Its system of management (or mismanagement) necessitated its stopping payment for a month in 1857, when the Western Bank failed. In 1864 the bank increased its capital to £850,000 by the issue of new stock at a premium of 30 per cent.

The directors persisted in their reckless career, and the bank advanced enormous sums—over six millions—to five customers. Falling into discredit in London, the City Bank applied to the other Scottish banks for assistance, when they were recommended to maintain proper reserves, and to retire a large amount of their acceptances. To do this, they requested a loan of £500,000, and it then came out that the bank was largely involved with a few firms. An examination of the books was decided upon, and the report of the accountant was such that

the other banks declined to assist. The City Bank finally closed its doors on 1st October 1878.

Investigation showed a deficiency of six million pounds, of which five millions had to be made good by the shareholders. The published Balance-Sheets had been systematically falsified; bad debts of seven millions had been stated as good, and securities and reserves had been overstated. The directors were sentenced, two to eighteen months', and the others to eight months' imprisonment.

A first call of 500 per cent. was made on the shareholders, a large number of whom were brought to ruin before the creditors were satisfied. A public relief fund was raised which amounted to £400,000.

YEAR 1907

1. Give a specimen Balance-Sheet of one of the Scottish Banks.

Liabilities

To the Public—

Deposit Receipts and Current Account
balances, with interest accrued . . .

Notes in Circulation

Drafts, Letters of Credit, etc., outstanding .

Acceptances—

On account of Banking Customers . . .

„ Other Customers . . .

To the Proprietors—

Capital

Reserve Fund

Dividend now declared

Balance of Profits carried forward . . .

£

Assets

Gold and Silver Coin; Notes of other Banks,
and Money at call and short notice in

London

Consols and other Government Securities .

Other Investments

Bills discounted and advances on Cash Credit
and Current Accounts

Loans for short terms on Stocks and other
Securities

Securities against Acceptances

Bank Premises and Heritable Property .

£

2. Narrate the origin and extension of the Branch System.

Answer

The Bank of Scotland first opened branches in Glasgow, Aberdeen, Dundee and Montrose in 1696, but, as the expense exceeded the profit, they were closed the following year. Again in 1731 they tried the experiment in Glasgow, Aberdeen and Dundee, but after two years these agencies were withdrawn. In 1774 they made a third and successful attempt; Dumfries and Kelso were the first branches, and others soon followed. The Bank of Scotland did not again open in Glasgow until 1804; while the Royal Bank's only branch for a long period was their Glasgow office, opened about 1784. The beginning of the nineteenth century saw a great development of the branch system, particularly at the hands of the British Linen and the Commercial Bank. The National Bank commenced to acquire a branch system right from its establishment, but the Royal Bank did not commence operations on an extended scale until 1855. The Western Bank of Scotland and the City of Glasgow Bank were both extremely active in the direction of opening branches—the former at the date of its failure in 1857 having the largest branch system in Scotland, with 101 offices. In seven years from 1866 the number of branches was increased by no fewer than 300, but since then, while the policy of branch extension has shown continuous progress, the rate of expansion has been comparatively slow. Practically every village has its Branch Bank, and the cities are overrun with offices. There seems to be little more room in Scotland for profitably opening new agencies. The number of offices open in 1910 is 1200.

3. Give a short history of the British Linen Bank.

Answer

The British Linen Company (now the British Linen Bank) was incorporated by Royal Charter dated 6th July 1746, authorising a capital of £100,000, of which £50,000 was offered for subscription.

The purpose for which the Company was incorporated was the encouragement of the linen industry, which had lately been introduced into Scotland, and they were empowered not only to manufacture and deal in linen fabrics, "but also to do everything that may conduce to the promoting and carrying on the linen manufacture."

In 1750 the company issued notes, and at an early period of their existence banking operations were undertaken—at first in addition to their trade in linen. They withdrew by degrees from all mercantile and manufacturing operations, and finally confined their attention to banking in 1763.

A second charter, granted in 1806, authorised the enlargement of the capital to £200,000, and in 1813 the authorised

capital was increased to £500,000. The business of the Paisley Banking Company (with branches at Glasgow, Irvine and Stranraer) was taken over in 1836. The authorised capital was further increased in 1849 to £1,500,000, and the following year the amount paid up was raised to £1,000,000.

In 1892 the paid up capital was further increased to £1,250,000 by the issue of £250,000 at a premium of 200 per cent., by which means they were enabled to place £500,000 to the Reserve Fund. By virtue of a Supplementary Charter granted in 1906, the name of the corporation was changed to the "British Linen Bank."

The paid-up capital is now £1,250,000 and the Reserve Funds £1,800,000.

4. What have been the changes during the last six months in the rates of interest on Cash Accounts and Deposits Receipts ; and how are these fluctuations determined ?

Answer

Candidates should be familiar with the various rates charged and allowed for a period previous to the examination.

The fluctuations in interest charged and allowed by the Scottish Banks are determined periodically on agreement amongst the bank managers. As a rule, the rates vary according as the Bank of England rate rises and falls.

5. Tell what you know of the crisis of 1797, and how it affected Scotland.

Answer

The crisis of 1797 was not a general commercial crisis, but a banking crisis occasioned by a scarcity of metallic currency.

The country had suffered from a persistent drain of gold to meet expenditure incurred abroad in connection with the war with France, and in the shape of loans to foreign allies, until the bullion reserve of the Bank of England was almost exhausted. From this cause, and owing also to fear of invasion, the trade of the country was in a crippled state, and the Bank of England was ultimately (in 1797) authorised to suspend specie payments—a suspension which lasted practically until 1821.

On receipt of this news in Scotland, the banks all followed the example of the Bank of England. The popular confusion occasioned by this step was considerable, but the Scottish notes throughout, although inconvertible, maintained their par value, unlike English notes, which fell to a discount.

For a time, owing to the scarcity of small currency, the notes passed in halves and quarters, until the banks were empowered to issue notes for fractional parts of twenty shillings. Notes of the value of five shillings were issued under this provision, which held good for two years.

6. When did the Scottish Banks open offices in London, and what benefit do the banks derive from them ?

Answer

If we except the London warehouse of the British Linen Company, the first mention found of a Scottish Bank opening in London is in connection with an unsuccessful experiment made by the Dundee Union Banking Company—a concern absorbed by the Western Bank in 1844.

The establishment of offices in London by the existing Scottish Banks is matter of recent history. The National Bank of Scotland led the way in 1864, and were not welcomed by the English banks: the London bankers resented this new competitor, and the Provincial bankers were jealous of the privilege denied to them, of having a London office while enjoying the right of note issue elsewhere.

The Bank of Scotland soon followed the example of the National Bank, and the Royal Bank of Scotland joined them in 1874. These events, and the opening by the Clydesdale Bank of three branches in the north of England, led to organised opposition on the part of English bankers. A Bill was introduced, the object of which was to expel the Scottish banks. The matter fell through, however, and the remaining Scotch banks in succession extended operations to London, the Commercial Bank of Scotland being the last to open (in 1883). All the existing banks, with the single exception of the North of Scotland and Town and County Bank, have London offices.

The services performed by the London offices as agencies for the transaction of English and Foreign business are simply invaluable. By means of "London Office" each bank is directly represented at the world's settling place, where exceptional facilities are afforded for all classes of banking operations, including those connected with the Stock Exchange, the Foreign Exchanges, and the Bill Market, as well as with the general public.

In particular, each bank holds a considerable portion of its reserve in London in the shape of money lent at call and at short notice to brokers and others, and it is better to be able to do this directly through London Office than to be compelled to employ a correspondent.

YEAR 1908

1. What is the meaning of Limited Liability, and under what conditions was it applied to Scottish banks ?

Answer

The principle of Limited Liability as applied to joint-stock companies means that the liability of each shareholder for the

debts of the company, is limited to the extent that it bears a certain ratio to the nominal amount of his holding. In other words, provision is made that a certain proportion of the subscribed but uncalled capital can be called up only in the event of, and for the purposes of, the liquidation of the company.

The adoption of the limited liability system followed upon the failure of the City of Glasgow Bank, in 1878, with enormous liabilities, for which the estate of each shareholder was liable *in toto*. So great was the hardship entailed on the shareholders that the system of unlimited liability was doomed, and the Companies Act was passed providing for Reserve Liability.

The three senior banks already enjoyed the right of limited liability, and they were led into controversy with the Government regarding certain proposals as to the securing of their note issues. The Government shifted their ground in the discussion, and the negotiations came to a deadlock.

After considerable hesitation the other seven banks were compelled in 1882 by the force of public opinion to adopt the principles of limited liability, which they effected by increasing their nominal capitals to five times the amount of their existing paid-up capitals, and declaring a proportion of the uncalled capital to be reserve liability.

Banks registered under the Companies Acts retain unlimited liability in respect of their note issues.

2. Give as fully as possible a history of the Caledonian Banking Company Limited.

Answer

The Caledonian Banking Company, with head office at Inverness, was established in 1838, with a capital of £125,000, of which £31,250 was paid up. In 1841 the paid-up capital was increased to £75,000. A branch system was inaugurated—confined entirely, however, to the North of Scotland, where a small but profitable business was conducted.

In 1878 the Caledonian Bank was involved in an unfortunate manner in the failure of the City of Glasgow Bank. The former held City Bank shares from a customer in security to the amount of £400, and so large was the deficiency disclosed, and so uncertain the liability of shareholders, that it was feared that the Caledonian Bank would not survive the calls. The shareholders, noteholders and depositors lost faith in the soundness of the bank, and through pressure it was obliged, although quite solvent, to suspend payment for seven months. Eventually it was found that the liability of the Caledonian Bank amounted to £11,000, and thereafter business was resumed. Negotiations with a view to absorption by the Bank of Scotland had taken place, but the scheme, apparently, was impracticable.

The Caledonian Bank's business continued to prosper, until

at length the continued depreciation of securities made the struggle too fierce for the little bank, and the business was by a mutual arrangement acquired by the Bank of Scotland on 19th August 1907.

3. Tell what you know of the origin and growth of the Deposit Receipt System.

Answer

The Bank of Scotland in 1729 commenced to allow interest at five per cent. per annum on deposits "on the Treasurer's Bond," this being, apparently, the origin of the deposit receipt system. In 1731 deposits at fixed periods were taken—4 per cent. being allowed on those at 12 months' notice, and 3 per cent. for six months'. In 1762 the Bank of Scotland and the Royal Bank advertised their rates at 5 per cent. for Deposits for a period of six months and 4 per cent. if payable on demand; but this, apparently, was not good business, and in the following year the banks intimated their intention to repay the 5 per cent. deposits.

The system in its present form was inaugurated by the Bank of Scotland in 1810, the rates then allowed being from 3 per cent. to 4 per cent. They now vary in accordance with the Bank of England rate of discount.

The total Deposits of the Scottish Banks (1910) amount to £105,000,000.

4. Give an account of the Baring Liquidation of 1890–1895, and the part in it taken by the Scottish banks.

Answer

When the firm of Baring Brothers got into difficulties in 1890, with liabilities to the public of £28,000,000, it looked as if nothing could avert a national disaster. The Barings, along with many others, were heavily involved in the general speculation in South American securities, and they had financed the Argentine Republic to an enormous extent. South America lost credit in this country in 1890, and when it was found that an Argentine Loan could not be raised the Stock Market was inundated with South American Securities, which were practically unsaleable.

Many banks had advanced heavily to the Stock Exchange and were largely interested in South Americans, and for common protection the Bank of England (for the first time) consulted the large joint-stock banks. The situation was considered so risky that it was resolved that the Bank should finance the Barings, the other banks interposing their guarantees to the extent of £15,000,000.

The contribution of the seven largest Scottish banks was £300,000 each.

In 1895 it was announced that the assets of Baring Brothers

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had been liquidated, and no loss fell upon the guarantors. The firm itself was reconstructed.

5. What are the chief advantages to the Banks in Scotland of the power to issue notes ?

Answer

The right of note issue which belongs to the Scottish Banks is not now quite so valuable as asset as it was in earlier days. But for the power to create credit by the issue of notes, the Cash Credit System could not have been developed as it was, nor could branch systems have shown the same expansion.

The Act of 1845 regulating the issue of notes in Scotland once for all restricted the value of the privilege, by limiting the amounts which may be in circulation to certain specific figures—fixed on the basis of the average circulations for the year to 1st May 1845 (thus making no allowance for possibly extended requirements) *plus* the amount of gold and silver coin held at head offices. (The silver so held is not to exceed one-fourth part of the gold coin : in other words the silver must not exceed one-fifth of the total coin thus held.) Stamp-Duty at the rate of 4s. 2d. per £100 per half-year is exigible.

On the authorised circulation which does not require to be covered by coin, the banks make a profit, and this is the chief advantage accruing from the privilege of issue. Without this right the cost of maintenance of a specie currency would compel the banks to withdraw many country branches, to restrict the facilities afforded to the public, and to increase their scale of charges. The result would be a curtailment of the prosperity both of the banks and of the country at large.

6. Give a short history of the Ayr Bank of Douglas Heron & Company.

Answer

The "Ayr Bank," as the firm of Douglas Heron & Company designated themselves, was established at Ayr in 1769, with a subscribed capital of £96,000. The concern had an aristocratic connection, but was from the first conducted on irresponsible lines. Sir Walter Scott pungently described the venture as being "rashly entered into by a large body of country gentlemen and others unacquainted with commercial affairs, and who had moreover the misfortune not only to set out on false principles but to get false rogues for their agents and managers."

Branches were opened in Edinburgh and Dumfries, and agencies in Glasgow, Inverness, Kelso, Montrose, Campbeltown and elsewhere. The demands made upon them for accommodation soon exhausted their capital and deposits, and they fell back upon the wholesale issue of notes. As these came back upon them the directors had recourse to

London for assistance, and arranged that firms there should accept bills on their behalf at a high rate of commission, and thus their difficulties were for a time tided over.

Meanwhile, the bank was represented to be in a flourishing condition, and a dividend was declared in May 1771, and in the same year the banking businesses of John Macadam & Co., Ayr, and Alex. Johnston, Hugh Lawson & Co., Dumfries, were purchased—both firms in a poor condition.

The directors allowed affairs to drift so far that when they made an effort to regain a stable position they found matters had got beyond their control, and there was nothing for it but to await the end. This came speedily, through the failures of financial houses in London and in Scotland, and—assistance being refused by the Bank of England—cash payments were stopped in June 1772.

The liabilities were £1,250,000, consisting of capital £130,000, deposits £300,000, notes £220,000, and bills on London correspondents £600,000. The assets consisted of advances £827,000 (£400,000 of which was to partners) and bills £409,000. After three months the bank commenced to do business again, but the other bankers refused to take their notes, and in August 1773 winding-up was resolved upon. The ultimate loss to partners, whose liability was unlimited, was £663,000.

The chief mistakes committed were: over-trading; over-issuing; lack of branch supervision; untrustworthy officers; slackness in affording credit without good security, and general ignorance of banking principles.

YEAR 1909

1. Give the figures of the latest Balance-Sheet, the uncalled liability, and the authorised note issue of *your own* bank.

Answer

Students should be perfectly familiar with the items and figures appearing in the Balance-Sheet and Profit and Loss Account of their own bank; as well as with the amount of the authorised circulation, and the amount of the capital (if any) unissued (distinguishing between “callable”—*i.e.* available for business if desired—and “reserved liability,” to be called up only in case of liquidation).

2. What was the Equivalent Company, and how is it connected with banking in Scotland?

Answer

In the Treaty of Union (1707) it had been stipulated that in respect of the customs and excises to be levied in Scotland being proportionately applicable to the debts of England, the

latter country should pay a sum of £398,085, together with a further sum to correspond with the anticipated growth of the Scottish revenue. This money was to discharge sundry public creditors and encourage certain industries in Scotland. The greater part of this sum fell to the Darien Company.

The Government settled with the creditors by issuing debentures of £50 each, and these proprietors were by an Act of 1719 incorporated as the "Equivalent Company," with a capital of £230,308. This Company sought to extend operations to banking; and, after making unsuccessful overtures for union with the Bank of Scotland, they obtained in 1727 a charter, enabling such of them as chose to do so to subscribe their stock into a new corporation entitled the "Royal Bank of Scotland."

3. Relate briefly the history of the Western Bank, and indicate the causes which brought about its failure.

Answer

On 2nd July 1832 the Western Bank of Scotland commenced business in Glasgow, and at the first annual balance the capital was stated as £209,170 held by 430 partners.

From the first the bank adopted a go-ahead policy, was active in the direction of opening branches, and in the growth of its business soon out-distanced its older rivals. This result was not achieved on sound lines, however, but in distinct violation of the prudent principles on which the Scottish banks had conducted their affairs.

Two years after their establishment we find that owing to reckless mismanagement the Western Bank's drafts on Jones, Lloyd & Co., London, were dishonoured by that firm, while the Edinburgh banks refused to accept Western notes, and entered into remonstrance against the administration of the Western Bank—in particular as to their neglecting to maintain sufficient reserves. On the Western directors promising to attend to this matter, they obtained large advances from the Edinburgh banks.

Similar remonstrance passed and assistance was again afforded in 1838. In 1845 the business of the Ayrshire Banking Company was acquired. In 1847 the Western Bank had to get assistance from the Bank of England to the extent of £300,000, which was shortly afterwards repaid.

When the crisis of 1857 came, with numerous failures in America and London, the Western Bank stopped payment on the 9th November, after assistance had been refused by the Edinburgh banks and the Bank of England.

The paid-up capital at the date of stoppage was £1,500,000; the shares of £50 each stood at £84½; the number of branches

was 101; the deposits amounted to £5,306,569; and the total liabilities to the public were £8,911,932. Two calls amounting to 250 per cent. on the capital were made on the proprietors, who sustained a total loss (including capital at par, and Rest) of £2,816,354.

For two days the other banks refused Western notes, but this so increased the panic that it was resolved to accept them in the course of business.

The Western Bank traded on the unbounded confidence placed in it by the public, and conducted its affairs in a manner which was bound to bring about its downfall. On several occasions it had been pressed, both by the other Scottish banks and by its London correspondents, to maintain high-class reserves, and had received assistance on promises of amendment, which were soon forgotten. In addition, the distribution of the bank's resources was on a reckless scale, enormous sums being tied up in a few advances. A wild experiment was made in the shape of a discount agency in New York, which resulted in a loss of £185,250.

4. Give short notes upon the following :—

The Option Clause.

Exchange Companies.

Deposit Receipts.

Banknotes.

Answer

The Option Clause.—This was a clause inserted in bank-notes to the effect that they were payable on demand, or at six months after presentation, with interest. The practice was first had recourse to by the Bank of Scotland, in competition with the Royal Bank, and was adopted by the latter bank and by the British Linen Company in 1761. The Option Clause was made illegal by an Act of 1765.

Deposit Receipts.—These are receipts granted by the banks to depositors of money which bears interest. Deposits "on the treasurer's bond" were first taken by the Bank of Scotland in 1729. The Edinburgh banks in 1762 issued receipts for deposits payable on demand and at fixed periods.

Exchange Companies.—In 1818 the English firm of John Maberley & Co. opened branches in Scotland for the conducting of exchange operations, and continued business until they failed in 1832. In 1845 there was an outbreak of flotations of exchange companies attendant on the development of all kinds of joint-stock enterprises. The operations of these companies were practically confined to speculation in the shares issued by new undertakings. Glasgow was the chief home of exchange companies, six of them doing business there within a year after the establishment of the first—the Glasgow Commercial Exchange Co.—but Aberdeen and Dundee, and to a lesser extent Edinburgh, made their acquaintance. Most of

these concerns collapsed in the crisis of 1847-1848, and within ten years they had all disappeared.

Banknotes.—These are bills of exchange, payable to bearer on demand, issued by bankers. They were first issued in Scotland in 1696; and the circulation is now regulated by the Bank Act of 21st July 1845.

5. Tell what you know of banking in Aberdeen.

Answer

To Aberdeen belongs the distinction of having given rise to the first country bank—namely, the Banking Company in Aberdeen, established in 1749. This was the first private company to issue notes in Scotland, and, because of the proportions to which their circulation grew, an Aberdeen agent was appointed by the two old Edinburgh banks to encourage the circulation of Edinburgh notes, and collect those of the new company and demand their retiral in specie or Edinburgh notes. By these tactics they succeeded in bringing about the downfall of the Aberdeen Company in 1753.

In 1767 a second and successful Banking Company in Aberdeen was floated, which experienced great prosperity, and was absorbed by the Union Bank of Scotland in 1849.

The Aberdeen Town and County Bank was founded in 1825, with a capital of £150,000; and, with a branch system covering the North of Scotland, continued to enjoy prosperity until its amalgamation with the North of Scotland Bank.

The latter was established in Aberdeen in 1836, and it also spread its branches over the North of Scotland, latterly extending operations to the south. Amalgamation with the Town and County Bank was effected in May 1908. The united North of Scotland and Town and County Bank Ltd. have both an Edinburgh and a Glasgow office.

6. What special taxes have the banks in Scotland to pay? Describe the origin of the taxes, and indicate any effects they may have upon banking generally.

Answer

The Scottish banks pay taxes in connection with the issue of notes.

(a) *Licence.*—A licence for the issue of notes was first levied in 1808, and was raised in 1815 to £30 for each distinct place or town where notes were issued, provided that not more than four licences in all were required to be taken out by each bank.

The English Bank Act of 1844—Section 22 of which applies to the United Kingdom—enacted that a licence was to be taken out in future for each town or place where notes were issued (one licence covering any number of branches in the

same place) provided that branches covered by the existing four licences were to remain so covered.

- (b) *Stamp-Duty*.—This was first exigible in respect of notes in 1800, and several subsequent increases were made prior to 1815, when the present scale was fixed. Under a composition arrangement regulated by an Act of 1853, the Scottish banks compound for the duty by paying at the rate of 4s. 2d. half-yearly per £100 of the average weekly circulation.

The levy of a licence of £30 for each branch established where a bank was not previously represented naturally militates to that extent against the opening of new branches; while the payment of Stamp-Duty on the circulation of course deprives the banks of so much profit.

YEAR 1910

1. Give a short account of limited liability as applied to the Scottish banks, its nature, origin and purpose.

Answer

See 1908 Paper, Question 1.

2. Quote some instances of Scottish banks issuing stock at a premium, and give your views on the loss or gain to the banks from these issues.

Answer

In 1864 the City of Glasgow Bank increased its capital from £670,869 to £850,000 at a premium of 30 per cent.

The Bank of Scotland in 1876 issued £250,000 stock at a premium of £375,000, which was placed to the reserve fund.

In 1892 the British Linen Bank issued at 300 per cent. £250,000 stock, thus increasing its capital by £250,000 and its reserve fund by £500,000

If a gain is to accrue in such circumstances, it is necessary that the new funds should earn a rate of profit at least equal to that earned by the former resources.

3. Tell what you know of banking in Perth.

Answer

Several banking establishments have been connected with the city of Perth. In 1766 the Perth United Company was formed, to be dissolved in 1787, its notes being retired and the business carried on by the Perth Banking Company. This company existed until 1857, when it was taken over by the Union Bank of Scotland.

In 1810 the Perth Union Banking Company was founded. The National Bank of Scotland acquired its business in 1836.

The Central Bank of Scotland was established in Perth in 1834, with a capital of about £80,000. This business was purchased by the Bank of Scotland in 1868—at which time the Central Bank, with nine branches, was paying a dividend of $12\frac{1}{2}$ per cent. on a capital of £100,000.

4. What was the origin of the Bank of Scotland and the British Linen Bank?

Answer

The Act of Parliament authorising the incorporation of the Bank of Scotland is dated 17th July 1695. The exact origin of the idea is not certain, but it appears that a London merchant, John Holland (first governor of the bank), drew up its constitution at the request of several Scotsmen resident in London. At the outset the governor and one-half of the directors were chosen by the London proprietors, the other half with the deputy governor being elected by the Scottish proprietors, but the practice of having London directors was subsequently departed from, owing to the waning in London of interest in the scheme.

The capital authorised was "Twelve Hundred Thousand Pounds (Scots) Money," or £100,000 sterling, and the subscription was completed in the beginning of 1696, in the proportions of two-thirds in Scotland and one-third in London. Business was commenced on the 10 per cent. payable on application, equal to £10,000.

For account of the origin of the British Linen Bank, see 1907 Paper, Question 3.

5. Narrate briefly the causes of the failure of the City of Glasgow Bank.

Answer

See 1906 Paper, Question 6.

6. What are the benefits derived by the Scottish banks from their London offices?

Answer

See 1907 Paper, Question 6.

II. MEMBERS' EXAMINATION

PRINCIPLES OF POLITICAL ECONOMY

THE works recommended for this important subject are Mrs Fawcett's "Political Economy for Beginners" and Professor Nicholson's "Elements of Political Economy." For those who have had no previous acquaintance with the subject, Mrs Fawcett will prove an excellent introduction; but Nicholson must be thoroughly mastered. This means close reading and careful consideration. Political Economy not being an exact science, students should endeavour to grasp clearly the lines of reasoning that lead up to the different conclusions arrived at, at the same time keeping their own minds open, and examining for themselves the arguments produced.

At the very outset the definitions of the leading conceptions of the science should be understood, and for the purposes of the examination these should be committed to memory. Such are—Wealth, the Agents of Production, Wages, Rent, Value, Utility, etc. As will be seen from inspection of recent papers, the tendency is to set questions on matters of practical and topical interest, and candidates will do well to keep abreast of any fresh development in economic history.

YEAR 1906

(Answer any *five* questions)

1. What is meant by the production of wealth?

Consider whether the labour employed in *transport* and *banking* is to be regarded as productive labour.

Answer

By the term production of wealth is meant the combining of the requisites to production, (land, labour and capital) with the object in view of producing anything that has an exchange value. The service that labour renders to production is that of "putting things into fit places" or "moving one thing from or to another" (Mill). Productive labour simply means putting utilities into material things or adapting them for consumption. Thus transport fulfils one of these objects in that it puts articles into places where they are required, and banking is to be regarded as productive labour in that the funds held by

a bank are not effectively employed until they are in the hands of those who can employ them to assist in production.

2. Discuss the effects on wages of the introduction of machinery.

Answer

The species of capital are twofold, fixed and circulating. Fixed capital is that amount which is sunk in buildings, machinery etc. The consumption of this capital is slow, and consequently the corresponding return of wealth from this source is also slow.

Circulating capital on the other hand performs the whole of its office in one use ; it usually bears a fixed proportion to the amount of fixed capital in the business, and the returns from it are immediate. Under this head would be classed raw materials, wages, etc. On the introduction of machinery large amounts of circulating capital had to be converted into fixed capital and many employees were therefore thrown out of work. This state of affairs was however purely temporary, for the machinery proved so reproductive that the capital of the country was in a very short time largely augmented and the wages fund correspondingly increased.

3. Give a brief account of the origin and functions of Trade Unions.

Answer

Trade Unions are voluntary associations of workmen for mutual assistance, protection, and securing generally the most favourable conditions for labour. Historically, Trade Unions may be said to be descended from the Crafts Guilds of early times, but the similarity between them ends with the similarity of motive—viz. co-operation for their mutual benefit. The first example of Trade Unionism, though a crude one, is to be found in the year 1387, when the London Cordwainers combined against their overseers. In 1720 we find Parliament adopting a somewhat hostile attitude to the claims of the journeymen tailors. Of later years, however, legislation has been more favourably inclined towards Trade Unions, and many of their representatives now hold seats in Parliament. The functions of these societies may, in addition to the above, be briefly stated as agents for the bargaining for the rates of wages for members, and fixing laws as to the conditions of labour. They organise strikes, regulate benefit funds, and generally speaking perform the duties of employment bureaus. The keynote of Trade Unionism is Unity, and the presumption naturally is that a combination of men is in a better position to bargain for terms than the individual members would be.

4. Explain the nature of Gresham's Law, and illustrate its operation from the history of English currency.

Briefly stated, Gresham's Law is "bad money drives good money out of circulation." Thus, where there is a double standard, and one form of currency is depreciated through over-issue or otherwise, and it is optional for people to discharge their obligations by either kind of currency, they will naturally elect to pay with the depreciated form, and hoard that which is at a premium. A similar state of affairs may result from the concurrent circulation of metallic and paper money. In addition to the inconvenience which naturally arises from the expulsion of good money from circulation, the operation has a serious effect on prices, which will naturally be raised so as to cover at least the amount of the depreciation. An illustration of this law may be found in English history in 1717, when Sir Isaac Newton was Master of the Mint. Here the over-valuation of gold to the small degree of one and a half per cent. eventually led to the displacement of silver as a standard metal, and the establishment of gold as a single standard.

5. Trace the chief stages in the development of Deposit Banking.

Answer

Deposit banking may be said to have originated in Venice in the latter part of the sixteenth century, when foreign coins were received at their bullion value and certificates issued promising to repay an equal amount of bullion of the same fineness. A somewhat similar operation is found in the history of banking in Holland early in the seventeenth century, when "bank money" was instituted. Under this system the regulations were equally simple; any person might open an account, and deposit coin or bullion, against the appraised value of which he was allowed to draw.

In this country deposit banking may be said to have originated with the practice of depositing with the goldsmiths in the time of the Stuarts. About 1833, however, the system of deposit banking now in vogue received a great impetus on the establishment in London of a powerful class of bank known as deposit banks. These banks conducted ordinary banking business, but the right of note-issuing was withheld from them, this being the monopoly of the Bank of England. Gradually the field of operations extended over England, and now this class of banking is general, and the function of note-issuing—which was previously deemed to be the distinctive feature of banking—has dwindled into comparative insignificance. Scottish banking, not being subject to such a monopoly, has from its inception been developed on the lines of deposit banks.

The principal theoretical difficulties in connection with the conduct of these institutions are those relating to the interpretation of the term "money" and the limitations of the creation

of "bank-money." This, of course, involves a thorough examination of the theory of bank reserves, their sufficiency and centralisation.

6. Compare the advantages and disadvantages of Direct and Indirect Taxation.

Answer

A Direct Tax is one which is levied on the persons whom the State desires should actually pay the tax. Indirect Taxation is a form of taxation levied on one person, or group of persons, with the idea that they shall recoup themselves at the expense of a third party, generally known as the consumer. Thus the incidence of Income Tax is borne by the person paying it, and the method is therefore direct; whereas taxes on commodities are indirect, as they are levied on persons, who in turn treat them as additions to the cost of the commodities, to be borne by the purchasers. The leading argument in favour of direct taxation is that the payer knows exactly how much he will have to pay, and is therefore in a better position to regulate his expenditure; whereas against it, must be borne in mind that it cannot be paid in small amounts, but must be paid at a fixed time and in full. The burden is therefore felt more than in the case of indirect taxation, where the consumer pays one price for the commodities he buys, and may remain in total ignorance of the proportion that the tax bears to the whole. The consumer may, by avoiding luxuries, on which as a rule taxes are high, reduce the amount of his indirect taxation considerably. In both systems the danger of fraud is existent. The Income Tax payer may evade the collector by lodging false returns, while there is always the danger of smuggling as a means of evasion of indirect taxation.

YEAR 1907

1. Explain and illustrate the tendency to production on a large scale in manufacturers; and notice the principal counter-acting causes.

Answer

The economies effected in production on a large scale tend to create large combines of producers, who see that it is to their mutual advantage to join forces. In addition to narrowing the field of competition some of the benefits that they derive from combination are the use of better machinery; the cutting down of expenses, for the labour is by no means doubled with a corresponding increase in the volume of production; labour can be better classified, and improvements can be more readily adopted. Many illustrations of this may be found in amalgamations in the shipping, thread, and tobacco industries.

Counteracting causes are found in the localisation of industries—*e.g.* some industries flourish only in certain localities, generally due to some natural advantages possessed by those parts; and again other industries are naturally limited in their production, being dependent on, or subsidiary to, large concerns; and lastly, the specialising in certain branches of industries tends to foster the development of small concerns.

2. State and examine the grounds on which socialists attack the existing systems of individualism.

Answer

Individualism implies the private ownership of capital, with the corresponding rights of bequest and inheritance; and the right of competition. It is a state of society where all initiative is due to individuals, and the interference of the State is reduced to a minimum. On the other hand the aim of the dominant socialism is to gain political power in order to convert the private property in land and capital into collective property for the common good. Under such a state the members of the community would be paid, not in proportion to the work done, but according to their wants. The chief defect of such a system is obviously the lack of self-interest. If the workman has not to strive for his living he will naturally be less inclined to exert himself, and both the quality and quantity of the work done will tend to deteriorate. Again the larger part of capital is owned not as the result of inheritance, but as the result of the individual effort and enterprise of the owners, and to deprive them of this without compensation would be a manifest wrong. Further defects of such a system would be the cessation of thrift, and the withdrawal of the existing prudential restraints on population.

3. What is meant by the expression "General Rate of Wages," and what are the causes which determine the general rate?

Answer

Adam Smith points out that the differences existing between the rates of wages paid in different businesses are not real but apparent, and that these differences are due to certain circumstances connected with each business; there being in reality a general standard of wages. The causes to which he ascribes these differences are:

- (a) The agreeableness or disagreeableness of the employments themselves.
- (b) The easiness and cheapness, or the difficulty and expense, of learning them.
- (c) The constancy or inconstancy of employment in them.
- (d) The small or great trust which must be reposed in those who exercise them.

(e) The probability or improbability of success in them.

The phrase "general rate of wages" is used in considering the general relations of labour and capital, and in comparing the rates ruling in different countries at the same time.

4. What is a pound sterling? Trace the historical connection between the sovereign and the silver pound.

Answer

A pound sterling was originally an actual pound weight of silver of 5760 grains of a certain standard of fineness (925 in 1000). The phrase is used as early as 1158, the word sterling being derived, it is supposed, from Easterling, a name for the Hanseatic Merchants. The pound was coined into 240 pence. The standard fineness of silver was maintained down to the time of Henry VIII. and Edward VI., when it was debased for a period of fifteen years (1543-1558), the standard falling as low as 250 in 1551. Elizabeth restored the old standard which was maintained till, in 1816, the standard silver currency was abolished, and a gold currency on a monometallic basis established in its place. Since 1816 the term "pound sterling" has been applied to the gold sovereign, but the phrase is conventional in its application, for there is no reference to any pound weight of gold. (*Harmsworth Encyclopædia*).

5. Indicate the causes that determine the rate of discount. Show how a rise in the bank-rate affects the Foreign Exchanges.

Answer

The primary factor affecting the rate of discount is the state of credit. Any sudden contraction of credit immediately diminishes the available supply of money and at the same time increases the demand. The next most important point is the state of the real reserve. If the Bank of England reserve—which is, in point of fact, the reserve of the country—fell too low, a panic would be sure to set in, with the inevitable result of a marked rise in the rate.

Another cause that has an indirect bearing on the rate is the activity of trade, creating a demand for money. As bills carry the rate of interest ruling in the country on which they are drawn, a rise will naturally make bills on London more valuable. Foreign brokers and bankers will buy these for investment purposes, and the available supply may thus be exhausted. When it comes, therefore, to the settlement of mercantile transactions there is a shortage of bills; the only outcome of which can be a rise in the rates of exchange, the final resort being a remittance in gold. Hence it will be seen that a rise in the Bank of England rate has the effect of moving the Foreign Exchanges in favour of London.

6. Critically examine the leading arguments in favour of a Progressive Income Tax.

Answer

The leading argument in favour of a progressive rate of Income Tax is "equality of sacrifice." Thus, if the tax were say 1s. per £1 the possessor of an income of £100 would be expected to pay £5, and one in receipt of an income of £1000 would pay £50. There can be no gainsaying the fact that the burden of the taxation in this case will rest more heavily on the shoulders of the person in receipt of the income of £100, and it is with the idea of relieving this seeming injustice that the progressive theory was put forward. For instance if an abatement of £100 were allowed, no income of that amount or under would be taxed, whilst an income of £1000 would be taxed only on £900. In other words there would be reserved to the earner a living wage free of taxation and "each would pay a certain fixed proportion of his superfluities."

The system has been adopted in a modified form in this country, and no income of less than £160 is taxed; the abatement proceeds at a decreasing rate, with increase of income.

YEAR 1908

(Answer any *five* questions)

1. "The limited quantity and limited productiveness of land form the real limits to the production of wealth." Critically examine this statement.

Answer

The production of wealth is the result of the application of labour and capital to natural resources, including "land." The statement of Mill quoted above implies that labour and capital might be increased indefinitely, but the limit to the production of wealth is reached when all the natural products of the land have been tapped.

The fact is overlooked that wealth—the leading characteristics of which are utility and value—may be either immaterial or material in its nature. Obviously, the limited productiveness of land does not impose limits to the degree of education, talent, and personal virtue and service which may exist in a community. Again, the mere taking of raw material—crops or minerals—from the earth does not exhaust the process of production. The application of technical skill may enhance the value of raw commodities to an extent limited only by the possibility of their consumption—say, by the state of civilization.

It is conceivable that a country favoured by its geographical situation and by other natural advantages may, by the efficiency of labour applied to manufactures, indefinitely increase its production of wealth independently of the productiveness of its land.

2. What are the leading economic objections to, or difficulties of, State Socialism ?

Answer

The Socialist's demand, in so far as its *economic* bearing is concerned, amounts briefly to this : that collective ownership and regulated consumption should be substituted for private property and competition. He advocates State-control of the agents of production (land, capital, and labour) and of the distribution of wealth.

The following difficulties in the way of such a system—apart altogether from consideration of the utility or practicability of revolutionising existing laws and customs—may be mentioned :—

- (a) As regards the production of wealth : How is State ownership of land and capital to be secured ? By confiscation ? Then how are the choice of employment and the apportionment of work to be regulated, so that equal opportunities and tasks may be assigned to all ? What is to take the place of that personal motive (self-interest or what you will) which has been the dynamo of enterprise and progress ?
- (b) Coming to consideration of distribution : What rules are to govern the awarding of wages or rewards for service rendered, in the absence of competition ? How is society to stand the shock dealt to security by the elimination of the right of property ? What is to replace this right, and what is to constitute a title to any rights at all ? How is the fool to be prevented from parting with his money, and the knave from accumulating it ?
- (c) A valid objection may be lodged against the vast organisation (if practicable at all) which would be necessary to the maintenance of any such system. Where are to be obtained the perfectly wise and just officials for the State machinery ? And will the community be perfectly amenable to their control ?
- (d) How is work for all to be found ?
- (e) When private property, competition, and domestic trade and exchange have been abolished, what is to become of international or foreign trade ?

3. Indicate the principles that determine normal value in the case of commodities that have a joint cost of production.

Answer

Joint cost arises when two or more things are produced by one and the same process, so that the expenses of producing them all together are not greater than the expenses would be of producing one of them alone—*e.g.* corn and straw, beef and hides, mutton and wool, gas and coke. (In reality, there are very few cases of joint products in which the cost of production of both together is exactly the same as that of one of them alone.)

The general principle is that the normal value of the joint products together will tend to equal the joint cost of production, while the relative values of the individual products will depend upon the force of demand and supply. Thus, the price obtained for gas, and for the coke produced in the process, must be sufficient to cover the expense of their production. If there is an increased demand for gas, more coke will be placed in the market, and its price must fall. The enhanced price of gas must suffice to cover the fall in the price of coke and the increased expenditure (if any) incurred in the joint production. Similarly, the fact that wheat is imported into this country without straw makes the latter comparatively dear in this country, and cheap in the exporting country; but the price of both together must cover the cost of their production.

4. What are the limits to the creation of "Bank Money"? Indicate briefly the principles that should govern the management of Banking Reserves.

Answer

The ultimate limit to the creation of "Bank Money," or credit, is the Gold Reserve. The test of the value of Bank Money is convertibility, and up to the limit of immediate and full convertibility into gold it may safely be created. For each bank the limit is its available reserves.

Banking reserves should be maintained in accordance with the following general principles:—

- (a) They should bear a proper proportion to the liabilities, according to the nature of these.
- (b) They should take such a form that they will be readily available to meet probable demands.
- (c) They should be certain in value.

5. Give a brief account of the historical progress of Loan-Interest.

Answer

In olden times there was nothing to correspond to our conception of a normal rate of Loan-Interest. The farther back we go the less trace is found of standard security and uniformity of rates, or "market rate," and the greater the in-

fluence of monopoly and personal need. Although the penalties for the non-payment of interest have been lessened, the quality of security for payment has improved ; and the abandonment of severe penalties against usury has gone hand in hand with gradual disappearance of the abuse. Competition has ousted monopoly, and personal necessity is no longer exploited in the same way ; and the equalisation of the various forms of interest has proceeded in the direction of lower rates.

6. Notice briefly the principles that should govern a sound system of public expenditure.

Answer

Professor Bastable has it that " the question of expenditure is just as much a financial problem as that of revenue. Neither in theory nor in practice is it advisable to separate them completely." And Mr Gladstone said that " good finance consists more in the spending than in the collecting of revenue."

- (a) Equity.—Equality of benefit, including maximum utility, and the absence of "favouritism," should characterise public expenditure.
- (b) Publicity.—Public criticism, and consequent responsibility and consent, should be aimed at.
- (c) Certainty.—It is important that the amount should be exactly determined or calculated.
- (d) Economy.—In the administration of expenditure the objects to be effected should be accomplished in the most economical and efficient manner.

YEAR 1909

(Answer any *five* questions)

1. What is involved in the right of Private Property ?

On what economic principles should compensation be given in case of expropriation by the State ?

Answer

The right of property, according to Sidgwick, " involves the complete right of exclusive and quasi-permanent use, the right to destroy, and the right to alienate (*i.e.* to dispose of to another by gift or sale) but not necessarily or logically the right of bequest." Some writers make no exception of the right of bequest.

Expropriation by the State means the taking away, limiting, restricting, or destroying by Government of the proprietary rights of individuals. For example, certain forms of property formerly permitted to be held may be abolished, as slaves ; or the State may exercise compulsory powers of purchase, or

confer them upon local authorities or undertakings, so as to transfer the right of property from one party to another.

Compensation is the right which accrues to those who are thus deprived of their possessions. There is no general rule determining its amount—whether at, above, or below market value. Various considerations apply in individual cases, and in the last resort it is dependent upon public opinion as to what is fair and just.

Two general economic rules should be observed, (a) the rendering of a shock to credit should be avoided ; and (b) regard must be had to the reasonable expectations inferred from contracts.

2. Examine the influence of Credit on Production.

Show the bearing of your answer on the present depression of trade.

Answer

Credit is not synonymous with Production Capital, though the functions of both may be similar. The former is the transference of rights, the latter being the possession of rights: but as regards production and the increase of wealth, their effect is the same.

Credit is, in fact, a medium of exchange whereby the right to use capital is transferred to those best able to use it in production, and by means of which also the savings and surplus wealth of all classes may be made available for productive purposes. Thus, a highly organised banking system materially assists the development of the prosperity of a country: as in Scotland, where the system of Cash Credits, Note-issues and Deposit Receipts has vastly contributed to the increase of the national wealth.

An expansion of credit is accompanied by a rise in prices. A limit is imposed on the expansion of credit, however, and therefore on credit prices, by the Gold Reserves of a country ; and a weakening of the reserve means a contraction of credit and a fall in prices. In recent years our reserve has been menaced by the results of speculative trading and overproduction in the United States, and in common with America we have experienced contracted credit, low prices, and trade depression.

3. Explain briefly the causes that determine the Value of Money.

What, if any, is the connection between the Value of Money and the Rate of Discount ?

Answer

The Value of Money (by which is meant its *exchange power*) is measured by comparing it with other commodities as regards purchasing power: in other words, by the general level of

prices. When prices rise, the purchasing power of money falls, and *vice versa*.

The relative values of commodities fluctuate in accordance with supply and demand, and precisely the same laws determine the value of money—*i.e.* its value will fluctuate in sympathy with the relative force of the supply of, and the demand for gold. Thus, a sudden increase in the world's gold supply would, in the absence of counteracting circumstances, have the effect of augmenting prices, or lessening the exchange value of money; while a sudden increase in the demand for gold would result in a fall of prices, and enhanced purchasing power of money.

The rate of discount is really the "price" of loanable money, and must not be confused with the "value" of money. The former depends upon the supply of, and the demand for, money in the market; and these are affected by the state of credit, and the position of the reserve. There is no necessary and invariable relation between the value of money and the rate of discount, and prices may be high or low irrespective of movements in the discount rate. It may happen, however, that at a transition period between an old and a new level of prices the rate of discount may be directly affected.

4. On what grounds can the stringent regulation of the issue of Bank Notes be justified?

Answer

Notes issued by banks create obligations on their part, maturing on demand, and payable in gold. For the redemption of their notes, banks maintain reserves, just as they do for repayment of deposits; and the proportion of these reserves to liabilities is, in general, to be determined from a study of banking principles, and the actual position of each bank. Bank notes, however, form part of the common currency of a country, and on this ground note-issues are reckoned to be on a different footing from other liabilities, and have become the subject of special legislation.

The supervision of the currency is a recognised function of Government—and incidentally, therefore, the ensuring of the convertibility of paper money. In some countries (as, for example, in the United States) Government paper is in circulation; in other systems, the issue of notes is in the hands of banks, the circulation being subject to special conditions imposed by Government. In the United Kingdom the Acts of 1844 and 1845 control and limit the circulation.

5. What are the direct economic advantages of International Trade?

Critically examine the statement that "Protection will secure greater constancy of employment."

Answer

International trade gains for consumers (*a*) commodities which cannot be produced at home, and (*b*) articles which, although they can be produced in their own country, are obtained more cheaply from foreign sources ; and for producers there is the benefit of extended markets. Further, extension of markets tends to steady demand and supply, and, in consequence, prices ; and reciprocity of interests strengthens the guarantees for peace and general security. (Of course, disadvantages to certain countries may arise in the course of foreign trade. The natural resources of a country may be wastefully exploited ; the incomes of producers and consumers may be injured by imports ; these may be of inferior quality ; and capital and labour may be withdrawn from ruined industries and placed abroad).

The statement quoted leads to consideration of highly controversial questions. Theoretically considered, it is not within the power of a Government to directly augment capital : it may protect a particular industry so as to cause greater constancy of employment in that industry ; but if it does so by withdrawing capital from other national industries, the evil of unemployment is simply transferred to another theatre. But if it be in the power of a Government to withhold or withdraw capital from seeking employment abroad, so as to increase home production, then greater constancy of employment may be effected at the expense of the foreigner.

6. Indicate the principal elements of International Indebtedness.

How do you account for Great Britain's annual excess of material imports over her material exports ?

Answer

Foreign trade—the exchange of commodities between different countries—is the basis of international indebtedness.

Imports and exports may be divided into two classes : (*a*) “ visible ” commodities, or the material articles of production ; and (*b*) “ invisible ” quantities, such as freights, interest, investments, loans, travellers' expenses, commissions, arbitrage operations, etc.

The exchange of these invisible rights affects international indebtedness precisely as does the import-and-export of material commodities. The services rendered by our mercantile navy earn for us an enormous annual income ; and the receipts in respect of interest on British capital invested and lent abroad are very considerable. Neither of these items, however, appears in published statistics of “ import ” and “ export ” trade.

The annual excess of our visible imports over our visible

exports is accounted for by the balance on these quasi-imports and quasi-exports—the unseen elements in international trade—being so largely in our favour.

YEAR 1910

(Answer any *five* questions)

1. Discuss the advantages and disadvantages of the division of labour.

Answer

The chief advantages of division of labour are :—

- (a) Increased efficiency of the workers, acquired by constant application to the same thing.
- (b) Where labour is highly specialised, the workers may be classified more effectively according to their several capacities.
- (c) Capital also is specialised, and made more productive.
- (d) Economy of time is effected.
- (e) Inventions and improvements are promoted and encouraged.

The following disadvantages of specialised organisation of labour have been noted (not to be taken as necessary results of such a system) :—

- (a) Insanitary conditions of work.
- (b) Cramping of the mental faculties, so far as these are exercised at an individual's occupation.
- (c) Disadvantages arising from the greater delicacy of industrial organisation, interdependence of trades, overproduction, and unemployment.

2. The value of many commodities may be said to be determined by their cost of production. State the arguments for and against the view that this rule applies in the case of gold.

Answer

Gold, considered merely as a metal, would appear at first sight to have its value determined by the cost of production, like the majority of other commodities. The value of gold, however, is its general purchasing power : in other words, the general level of prices ; therefore such considerations as the volume of trade, the rapidity of circulation, and the influence of credit will effect the value of gold. Again, the amount of gold annually added to the stock in the hands of man is an infinitesimally small part of the aggregate, and the cost of production can thus only slightly affect the supply ; while the demand for gold is

governed by the work it has to do in effecting monetary transactions.

The value of gold will thus be one of the factors determining the extent to which gold-mining will be pushed, but the cost of production of gold has only a relatively slight effect on the general level of prices.

3. Mention the main points of contrast between domestic and foreign trade.

Answer

Within the borders of a single country, capital and labour are (comparatively) mobile, and flow readily to those places where they may be most effectively employed in the production of wealth. Further, trade is as a rule unhampered by artificial restrictions, and prices in the various markets tend to equality.

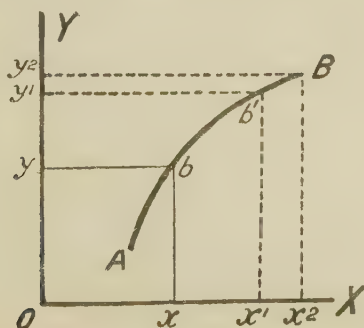
It is more difficult, however, to send capital abroad, and in particular the transfer of labour from one country to another is hindered by such causes as distance, love of home, and differences in language, customs, and religion. The very fact of there being different currency systems places a certain restriction upon trade.

4. Explain the principles which determine the rent of land as regulated by competition. Illustrate your answer diagrammatically.

Answer

The chief factor determining the rent of land is the force of supply and demand. Demand, in turn, is regulated by the price of the products—the higher the price, the greater the demand for land. In the absence of counteracting circumstances (such as improved methods, etc.), inferior qualities of land, and that situated farther from the market, will be resorted to as demand increases; and there is always some marginal land yielding no rent.

Hence rent is dependent upon the extent of land utilised, the intensity of its use, its situation, and scarcity. Rent therefore will increase, with an increase in demand, but the increase of the former will be at a diminishing rate.



OX represents competition, and OY rent. AB , a curve concave to OX , expresses the relationship.

OY increases with the increase of OX , but at a decreasing rate.

5. Describe a business conducted on profit-sharing or co-partnership lines.

Answer

A profit-sharing business, strictly speaking, is one in which a certain proportion of the profit (in ordinary circumstances accruing to capital) is shared with labour. In the case of a co-partnership the workers are admitted to management and the holding of capital, besides earning a dividend on wages.

Both forms of co-operation are in vogue in this country, and to a certain extent they appear to have been attended with success. One feature is the absence of strikes which the system seems to ensure; and in some cases the offering of a reward to labour, dependent upon the profits earned, has acted as an incentive to increased production, profits being augmented so that there has been no loss to employers. In other instances, from various causes, the system has not experienced the same success; and on the whole not much headway has been made towards its establishment as a general practice—the workers apparently preferring to leave the settlement of the conflict between labour and capital to their Trade Unions.

6. Give a definition of taxation and comment on the general ideas involved.

Answer.

“A tax is a *compulsory* contribution of the wealth of a *person*, or body of persons, for the *services* of the *public powers*” (Bastable).

(a) The element of *compulsion* is the most characteristic feature of taxation; improper evasion on the part of tax-payers is visited with penalties.

(b) The purpose of taxation (both national and local) is to meet *public expenditure*.

(c) Taxes are levied on the subjects at the instance of the *governing body*.

STOCKS AND STOCK EXCHANGE TRANSACTIONS

THIS subject is one which presents many difficulties to those who see nothing of such transactions in the daily routine of the office. However, with the rapid development of that class of business known as "loans against securities" the number of such offices is diminishing. Again the minimum percentage of marks required is somewhat stiff—viz. 60, and consequently this subject annually claims many victims. It has, however, a redeeming feature in the nature of the questions; these are framed on broad lines; petty detail is not expected, and a sound knowledge of principles is all that is asked for. To the uninitiated there is nothing like a thorough study of Gunn's "Stock Exchange Securities," read in connection with a practical guide to the Stock Exchange, such as Cordingley or Melsheimer.

Points to be specially observed are the methods of obtaining a complete title to the various kinds of securities dealt in, all questions relating to the purchase and sale of stocks and a knowledge of the procedure in each case, as well as the different ways in which the dividends are paid.

It will be readily observed on glancing over the papers of former years what questions are "hardy annuals." For instance, the possibility of a question on the National Debt is by no means remote. The student should therefore make a careful study of this important question; he should observe how the debt is composed, and how and when the dividends on the various items are paid. In addition, it will not come amiss if he acquires a brief knowledge of its history.

The candidate should also be quite familiar with the different descriptions of Railway Stocks, and their order of ranking as regards dividends.

Leeman's Act calls for notice as questions on it are found cropping up at odd intervals. And special attention should be given to a study of the details of the "settlement." It will be found beneficial to thoroughly examine a Daily Official List of the Stock Exchange, which to the beginner is brimful of information.

YEAR 1906

1. What constitute the Funded and Unfunded Debt of the United Kingdom? How are the different kinds transferred, and how are the dividends paid?

Refer to Answers of Question 4, year 1907, Question 4, year 1909, and Question 2, year 1910.

2. Explain fully the steps required to be taken, and the considerations necessarily kept in view, in making advances against stocks, so that the loans may be fully secured and the securities readily available on default of borrowers to pay.

Answer

Due regard must be had to the nature of the security offered. If shares in a joint-stock company, it should be ascertained whether they are fully paid, and the liability of the company limited: it is also desirable that the shares be quoted on the Stock Exchange. Where the shares are not fully paid a special deposit should be made, equal to the amount of the uncalled liability. The shares should be registered in favour of the bank's nominees, and a Letter of Hypothecation taken, signed by the borrower, giving the bank full control over the securities, and stipulating for the maintenance of a sufficient margin.

3. Narrate in complete detail how an ordinary transaction in stocks or shares on the London Stock Exchange is carried through.

Answer.

Refer to Answer of Question 1, year 1908.

4. What are Arbitrage operations on the Stock Exchange? State what special knowledge operators in such business require to possess.

Answer

Arbitrage transactions on the Stock Exchange are met with where a broker buys or sells stocks in different markets, to gain any advantage which may exist owing to a margin of profit ruling between the official quotations of the two Exchanges. His special knowledge is based on his experience of the markets and the ruling quotations.

YEAR 1907

1. A Client asks his Banker to purchase for him
 £1000 N.B. Railway Ordinary,
 £1000 Consols,
 20 shares Tharsis Sulphur & Copper Co. (share warrant),
 100 shares Erie R. Rd. Common Stock,
 and to advance to him 80 per cent. of the cost on security of the stock and shares purchased. State in detail how you would carry through the transaction to completion.

Answer

The banker would instruct a broker to procure the requisite

shares in favour of the bank's nominees, and on delivery would make payment, debiting his customer's account with the sums so paid.

Eighty per cent of this amount he would then transfer to a Loan Account, holding the shares in security. He would request his customer to sign a Letter of Hypothecation giving him, the banker, full control of the securities, stipulating for the maintenance of a sufficient margin, and giving power of sale in the event of the margin not being maintained. He would also make arrangements as to the due payment of interest, which, if the loan is taken for a fixed period but not less than a month, and the interest paid in advance, may be at the ordinary bill rate for such periods.

2. In receiving "gilt-edged" securities from a client as security for advances against a *small* margin only as available security, what are the chief points to be considered in determining a safe margin so as to avoid the necessity of a forced sale in a falling market?

Answer

In taking gilt-edged securities on a small margin due regard must be had to the state of the market, and the means of the borrower. Hence in times of tranquillity a borrower of large means may safely be permitted to take up gilt-edged securities in the bank's name on a narrow margin; whereas in times of panic a banker would naturally insist on more liberal cover. With regard to dealings with borrowers of small means, where a drop in market prices sets in, and they are not able to maintain a sufficient margin, the inevitable result is a forced sale; therefore a banker should always make due inquiry as to the means of would-be borrowers before coming to any arrangement with them.

3. Certain shares dealt in on the Stock Exchange cannot be carried over from account to account; what are they, and why cannot they be carried over? Further, concerning transfers of stocks and shares taken or issued by a bank, what are the points to be noted regarding the stamp duty impressed thereon?

Answer

Under Leeman's Act bank shares cannot be carried over, therefore all transactions in this class of stocks must be actual. (See also Answer to Question 4, Year 1908.)

Where a banker receives in security, shares which are registered in the customer's name, the transfer is sufficiently stamped if it bears a 10s. stamp, and the shares may be re-transferred to the customer on the same terms. Where, however, the shares are actually bought or sold, the *ad valorem* duty falls to be paid, and the banker, being a party to the transaction,

is responsible in the event of this provision not being duly complied with.

4. State what you know about the Public Funds of Great Britain, how they are sold and transferred, and how the dividends are paid.

Answer

The Public Funds of Great Britain are divided into two classes, the Funded and the Unfunded Debt.

The Funded Debt consists of Consols, certain classes of Annuities, and debts due to the Bank of England and Bank of Ireland. The Unfunded Debt, on the other hand, is made up of Treasury Bills, War Loan, Terminable Annuities and other capital liabilities.

All transfers of Consols, etc. are made in the books of the Bank of England, and where the holder cannot attend personally and sign the register, the transfer can only be made by someone attending and acting for him under a Power of Attorney.

Treasury Bills form part of the nation's floating debt, and are issued as the Treasury require funds. They are current for twelve months only and, generally speaking, are issued for very short periods; the Government is thus able to take advantage of the market rates. The War Loan repayable in 1910 bears interest at $2\frac{3}{4}$ per cent. The dividends on Consols, etc. are paid at the Bank of England quarterly on 5th January etc., or, if so desired, warrants on the Bank of England are sent by post to the holders or their mandatories. The Unfunded Debt other than Treasury Bills is represented by Bearer Bonds, and the relative coupons are paid as they mature.

5. What is Settling Day on the Stock Exchange? How often does it occur, and what is its use?

Answer

See Answer to Question 1, Year 1910.

YEAR 1908

1. Explain fully how an ordinary transaction on the London Stock Exchange is carried through from beginning to completion.

Answer.

Suppose a client wishes to buy £1000 North British Railway, Ordinary Stock, he advises his broker of the fact and requests him to purchase it on his account. The broker approaches a jobber who deals in Home Rails and asks him for a quotation for North British Ordinary. After they have struck a bargain the broker sends his client a contract note, advising him of the

transaction, the price at which it was carried through, the amount to be settled, and the date of settlement.

On Settling Day, or thereabout, the buying broker receives a transfer signed by the seller, together with the relative certificate: he gets his client's acceptance to the transfer and then forwards it to the office of the Company for registration. The Company sends the broker a formal receipt, known as a transfer receipt, on which is stated that the new certificate will be ready in the course of three or four weeks, as the case may be. At the expiry of this time the broker forwards the transfer receipt to the Company's office, and receives in exchange a new certificate for his client's holding.

2. What are the requirements of the Stock Exchange before a quotation of a Company's Shares can be got on the official list?

Answer

The requirements are numerous, but the principal ones are:

That the Company is of sufficient magnitude and importance; that the Prospectus, the Act of Parliament, the Articles of Association, the Certificate of Incorporation, or any similar document, and all papers and books relating to the application and allotment of shares are produced. That the number of shares applied for and unconditionally allotted to the public is stated; as well as the amount of deposits paid thereon, together with a certificate from the bankers stating the amount of the deposits received.

That the Prospectus has been publicly advertised and agrees with the Articles of Association, and, in the case of limited companies, contains the Memorandum of Association; that it provides for the issue of not less than one-half of the nominal capital, and for the payment of 10 per cent. upon the amount subscribed; that two-thirds of the whole nominal capital proposed to be issued has been applied for and unconditionally allotted to the public; that the Articles of Association restrain the directors from employing the funds of the Company in the purchase of its own shares, and that a member of the Stock Exchange is authorised to give such information to the Committee as they may require.

3. What are the chief points to be noted in purchasing the following securities—viz. (a) French, German, Italian, Chinese and Japanese Government Securities; (b) British Municipal Securities; (c) British Railways; and (d) Commercial and Industrial Company Securities?

Answer

(a) The chief points to be kept in view when buying foreign government securities are:—

The general credit of the country issuing the loan.

The currency of the country: whether the interest is

payable in gold or silver, and whether the bonds are repayable in gold or otherwise, as in the event of these being payable otherwise than in gold the state of the exchanges will require to be taken into consideration.

The incidence of taxation.

(b) With regard to British municipal securities the following points should be looked to :—

The total existing amount of debt, and the amount of debt per head of the population of the community.

The rateable value of the municipality, and the total amount that has been expended on productive works as against non-productive works.

The rate of interest and the provisions for repayment.

(c) With regard to British railways important features are :—

The rental of the line and the proportion of the net profits to the income.

The priority of right to the surplus profits according to the denomination of the various stocks issued.

(d) With regard to commercial and industrial companies the essential points are :—

A knowledge of the business principles of the directors.

An examination of the Prospectus, etc. of the Company under review, together with a close scrutiny of published balance-sheets.

All possible information regarding the manner in which their business has hitherto been conducted.

4. What are the restrictions on the free sale and disposal of bank shares in the Stock Exchange, and how do those affect the price of such shares ?

Answer

In 1867 an Act was passed, known as Leeman's Act, which virtually prohibits speculation in bank stock. Under the Act all transactions in such stocks must be actual, and the stock bought or sold clearly indicated. Non-observance of this provision is a statutory offence.

On the whole the effect of the Act is to impart a steadiness to the market prices of bank shares, due to the exclusion of the speculative element.

5. What are the chief causes of the severe depreciation of first-class securities during the last few years ?

Answer

Briefly stated, the chief causes of the depreciation of gilt-edged securities in recent years are :—

The great increase of national indebtedness, with the consequent issue of large amounts of consols, etc.

The growing aversion of large institutions and companies

to invest their reserves and surplus funds in these stocks, owing to the comparatively unremunerative return, and

The result of a period of severe commercial depression, which has reacted on the credit of the country at large.

YEAR 1909

(Answer any *five* questions)

1. Enumerate the different classes of Stock into which the capital of a Railway Company is usually divided, mentioning them in order of priority for dividend.

Answer

The principal divisions of Railway Stocks in order of priority for dividend are :—

Debenture Stocks, forming a first charge on the assets of the Company; the interest being at a fixed rate and having a prior claim to all other forms of dividend.

Guaranteed and Preference Stocks and Shares.

In the case of Guaranteed Stocks and Shares the holders have a cumulative preference for dividend, so that if in any one year the dividend is not paid in full the arrears accumulate and form a charge which has to be met in subsequent years before the holders of inferior classes of stocks receive any dividends.

In the case of Preference Shares the dividend is contingent on the year's earning, and holders have no further claim for any part of the amount remaining unpaid in any one year. As in the case of guaranteed dividends, the rate is a fixed one.

Ordinary Shares. The holders of Ordinary Shares are not paid at a fixed rate: they receive the surplus profits after the dividends on all other classes of shares have been paid. This class is frequently split up into different denominations, such as Preferred Ordinary and Deferred Ordinary, and in such cases the dividends are allocated in accordance with the respective agreements.

2. On what amount is the stamp duty for transfer deeds calculated and what is the rate of duty?

The stamp duty is calculated on the amount of the consideration money appearing on the face of the transfer. Generally speaking, the rate is $\frac{1}{2}$ per cent., but Government, and as a rule Corporation Stocks, are free of stamp duty. Where no

actual sale has taken place, the shares merely being transferred by way of security, the stamp duty is nominal—viz. 10s.

3. Explain the difference between "Stock" and "Shares."

Answer

The differences between stocks and shares are, that a purchaser can buy any fractional amount of stock, whereas he can only buy a fixed number of shares; further, all stock is fully paid, while there may be an uncalled liability attached to shares.

4. In the case of a purchase of Consols how is the transfer carried out?

Answer

All transfers of Consols are made in the books of the Bank of England, and where the holder cannot attend personally and sign the register, the transfer can only be made by someone attending and acting for him under a Power of Attorney. In the case of a person resident out of London buying Consols it is customary to do so under a Power of Attorney, granted in favour of some London banker, or other person known at the Bank of England, authorising him to accept the transfer and generally to draw the dividends.

5. What is a Contract Note, what particulars must be specified in it, and what stamp duty does it require?

Answer

A Contract Note is a letter of advice sent by a broker to his client after every transaction carried out on his behalf. The note should specify the amount of stock or shares bought or sold, the price at which the transaction has been carried through, the total amount to be settled, and the date of settlement. Where the amount to be settled does not exceed £100, the stamp duty is 1d., and where the amount exceeds £100, the stamp duty is 1s. (Since altered by the Finance Act.)

6. An investor buys a number of shares but before the transfer is registered the transfer books of the Company are closed for the purpose of paying a dividend. To whom is the dividend paid by the Company? Is the payee entitled to it, and if not, how is the matter adjusted?

Answer

The Company pays the dividend to the registered holder of the shares. If these were bought "cum div.," as they probably were, the buyer is entitled to the amount, but if they were bought "ex div." the seller will be entitled to retain it.

YEAR 1910

(Answer any *five* questions)

1. What is "Settling Day" on the Stock Exchange? Who fixes it and how frequently does it occur?

Answer

Settling Day. The third or last day of the settlement is called Settling Day, Pay Day, or Account Day. On this day the delivery of all stock bought or sold commences; accounts are settled and differences are paid. For ordinary securities there are two settlements a month: one at the beginning and the other at the end of the month, the dates being fixed by the Committee of the London Stock Exchange at the first Committee Meeting of the previous month; for consols, however, there is only one settlement a month, held at the beginning of the month, and fixed by the Committee at least five weeks beforehand.

Besides effecting a clearance of debt the settlement has the extra advantage of being a fortnightly test of the brokers' solvency.

2. What is the distinction between the Funded and Unfunded Debt of the British Government?

Answer

The main difference between the Funded and Unfunded Debt arises from the fact that so long as Government pays the interest on the Funded Debt, as it falls due, it discharges its obligation to the nation, or rather to the holders of the debt; whereas in the case of the Unfunded Debt, which is more or less of the nature of a floating loan, with a fixed date of repayment, it is liable for the interest as it falls due and also for the principal sum at the date of maturity.

The Funded Debt consists mainly of Consols, the other items being $2\frac{3}{4}$ per cent. Annuities, $2\frac{1}{2}$ per cent. Annuities, and debts due to the Bank of England and Bank of Ireland. The Unfunded Debt, on the other hand, is made up of Treasury Bills, War Loan (due 1910), Terminable Annuities and other capital liabilities.

Treasury Bills are issued in anticipation of revenue. The rates are subject to fluctuation, and the bills are issued in amounts varying from £100 to £1000.

3. Is the consideration money quoted in a Transfer of Stock or Shares always the sum to be received by the seller executing the Deed? If not, give the reason.

Answer

The consideration money in a transfer does not necessarily

represent the amount received by the seller of the stock, the reason being that frequently the same stock is sold several times during the settlement, and the amount specified in the transfer is that of the last transaction.

4. Explain the meaning of the undernoted quotations, which are taken from the London Stock Exchange Daily Official List, and state why the margin is much wider in some cases than in others :—

2½ per cent. Consolidated Stock	82 $\frac{1}{8}$ —	82 $\frac{1}{8}$ ⁵
Do. for Account	82 $\frac{1}{8}$	— 83
South Australia 4 per cent. Bonds, 1916	97	— 101
Erie Railroad Common Shares (\$100 each)	32	— 32 $\frac{1}{2}$
J. & P. Coats Ltd., 3½ per cent. Debenture Stock	104	— 107

Answer

The above are examples of transactions in various securities on the Stock Exchange. The left-hand figures represent the figures at which the jobber buys and the right-hand ones the figures at which he sells. The difference is known as the “turn of the market” and constitutes the jobber’s profit or remuneration on the transaction. In cases where the dealing in any class of stock is limited, or the stock is of a speculative description, the jobber’s quotations are wider than in other cases, as he may find it difficult to cover his transaction. Consols are sold either for cash, as in the first case; or for settlement, as in the second case, in which event the quotation is a fraction higher than that for a cash transaction.

5. How does an investor receive payment of, and what arrangements, if any, does he require to make in regard to, the interest or dividends on the following securities :—

Consols (Inscribed), Foreign Government Bearer Bonds, American Railway Shares, British Railway Ordinary Stock?

Answer

Dividends on Consols are paid at the Bank of England quarterly, on the 5th January, etc., or, if so desired, warrants on the Bank of England are sent by post to the holders or their mandatories.

Foreign Government Bearer Bonds have coupons attached, owners therefore detach these as they mature, and hand them to their bankers for collection.

Dividends on American Bearer shares are paid in different ways. If the holding is represented by Bearer Bonds the coupons are attached and should be negotiated as above; if represented by Warrants the dividends will be paid to the registered holders and the owners of the stock will therefore require to get the Warrants “marked for dividend”—that is, marked by the registered holders, who thereby undertake to

pay it over to them when they receive it. It is of course open to holders of Warrants to have them registered in their own names at any time, and the dividends will thereafter be paid direct to them. Blank endorsed Warrants are treated as Bearer documents and pass from hand to hand by delivery.

The dividends on British Railway Ordinary Stocks are remitted by warrant to the registered shareholders.

6. Into what classes are the members of the London Stock Exchange divided? What are their respective duties, and how is each class remunerated?

Answer

On the London Stock Exchange there are both jobbers and brokers. The jobbers attend in the Stock Exchange and transact business with the brokers, who, in reality, are middlemen, acting under instructions from their clients. The difference between the jobbers' quotations constitutes the jobbers' remuneration, while the broker recoups himself by charging his client a fixed rate of commission on transactions.

HISTORY AND PRINCIPLES OF BANKING AND CURRENCY

A CONSIDERABLE amount of reading must be done for this subject, which requires a knowledge of the history of banking in the United Kingdom, and of the leading points and characteristics in connection with the history and development of the chief Foreign and Colonial banking systems, as well as a grasp of the theoretical principles of banking and the nature of practical banking operations.

Gilbart on Banking is the best work for an elementary study of the subject. Much of his material, however, may be passed over very hurriedly, special attention being given to chapters on the Rise of Banking in England; History of Banking in England, Scotland, and Ireland; Administration of a Bank; Crises; and Banking Legislation.

Scott's "Money and Banking" is an excellent treatise which should be carefully studied throughout; or, if time and money are considerations with the student, Syke's "Banking and Currency" (5s.) will be found equally useful so far as this examination is concerned.

Banking matters of topical interest occasionally give rise to questions, and it is advisable for students to keep in touch with current developments, through the medium of the *Bankers' Magazine*, *Scottish Bankers' Magazine*, or *Journal of the Institute of Bankers*.

For information regarding Banking in other countries, the concise section on "Foreign Banking" in Sykes, Cary and Clark's "Notes on English and Foreign Banking etc." will be found sufficient. Conant's "History of Modern Banks of Issue" is an exhaustive work which, if procurable, might be consulted with advantage.

It will be observed that the answers required by the questions in this subject generally extend to considerable proportions, and if candidates are to write at such length it is obvious that their knowledge must be full and thorough.

YEAR 1906

1. Examine the statement that "The Scottish Banks enjoy a monopoly." Indicate its limitations, and show the practical outcome.

Answer

See "History of Banking in Scotland," 1906, Question 4.

2. Give an account of the currency and banking system of Japan.

Answer

Modern banking in Japan dates from 1882. Before that date the country laboured under the régime of depreciated paper and silver currency; while amongst the banks, which were numerous, no mutual relationships were recognised.

In 1881 the finances of Japan came under the control of Count Matsukata Masayoshi, whose travels in Europe and America had gained for him considerable knowledge of Western methods. This minister realised that the supreme need of Japan was a Central Bank, whose functions should be similar to those of the "National" Banks of Europe, and accordingly the Bank of Japan was founded in 1882. The Head Office is at Tokio, and its branches number about eighteen. It is framed on the principle of limited liability, and has the sole privilege of issuing convertible banknotes, which are redeemable in gold on demand. The circulation beyond the authorised limit, when not covered by specie, is subject to the "elastic limit," with accompanying 5 per cent. tax, which is characteristic of the German system.

The Yokohama Specie Bank (with about the same number of branches), founded in 1880 and reorganised in 1887, conducts ordinary banking operations. The Hypothec Bank of Japan, formed in 1897, is the chief of a large number of Mortgage Banks. There are besides some two or three thousand "banks" of all kinds.

The Gold Standard was adopted by Japan in 1896. The unit of the currency system is the yen, which is not coined. The minted coins (nine-tenths fine) are the 20-yen piece, weighing 16.666 grammes; the 10-yen and the 5-yen piece. Coins of 20, 15, 10, 5, 2, and 1 yen of an old issue still circulate, which are double the value of similar denominations of the new currency. The par with Japan is 1 yen (new currency) or half-dollar = 24.58 pence.

The silver coins are the 50 sen, 20 sen, and 10 sen. The bronze coins are 1 sen and 5 rin. (10 rin = 1 sen, and 100 sen = 1 yen.)

Silver is legal tender to the extent of 10 yen, and bronze to the extent of 1 yen.

3. What principles should guide a Bank in the employment of its resources?

Answer

A Bank stands in the relationship of medium between those who have credit to lend and those who require it, and it is in the capable administration of its proprietors' funds and the credit

thus borrowed from customers that the practical science of banking consists.

The greater part of a Bank's liabilities are repayable on demand; the slightest hesitation on the part of a Bank in fulfilling its obligations would spell ruin; and yet it is a business concern "out for profit." From these facts the deduction is that in the employment of its resources safety must be the first consideration—profit is of secondary importance. By safety is meant not only the avoidance of loss, but preparedness to meet all probable demands.

A proportion of the resources, therefore, will take the form of liquid reserves—including gold and silver coin, money at call and short notice, and consols and other first-class securities. The proportions which these items should bear to one another and to the total liabilities will depend upon the particular circumstances of each bank. A standard writer advocates a reserve, consisting of cash, money with London brokers, and consols, equal to one-third of the liabilities to customers. The cash in hand is simply till-money, and should be ample to meet requirements. Money at call and short notice in London is easily regulated, and can be liquidated without delay. In ordinary times, Stock Exchange securities are readily marketable, and may be realised when necessary, or when favourable opportunities present themselves. Consols is the one investment which in time of pressure can be relied upon to be worth about its normal value.

The remainder of a Bank's resources is employed in lending to its customers, in modes falling broadly into three classes—their ratio to one another depending upon the circumstances of different banks.

(a) Discounting of Bills. This form of lending calls for special knowledge of the financial standing of the parties, and of human nature generally.

(b) Loans for short terms on Stock Exchange Securities. Advances in this form are covered by the transfer of specific securities.

The currency of bills and loans being for short periods, money thus advanced may be called up, if desired, as the bills and loans mature. If, however, a bank is to conduct a profitable and extensive business, it is essential that the ordinary borrowing requirements of its regular customers should not be curtailed in order that the bank may meet demands for repayment on the part of depositors; and on this account it is imperative that the proportion of readily convertible and easily regulated assets be ample.

- (c) Advances on Cash Credit and Current Accounts (on all kinds of securities—personal, heritable, and moveable, and often without any security other than the credit of the borrower). These are for the greater part “permanent”—*i.e.* no date of repayment is stipulated for. They are therefore the most difficult of a banker's assets to call up and realise, and would be resorted to last of all in the event of contraction of accommodation.

A general rule applicable to all classes of advances is that the locking up of funds by lending in large blocks to a few customers is to be avoided.

(See also Year 1910, Question VI.)

4. Give a short account of the Irish Banking System, and indicate its chief peculiarities.

Answer

Banking in Ireland is now regulated by an Act of 1845, which placed all the banks on an equal footing, depriving the Bank of Ireland of exclusive privileges. The Act is on the same lines as that of the same year applicable to Scotland; an authorised circulation for each issuing bank was based on their average circulation for the year ending 1st May 1845, which may be exceeded only if gold or silver coin (the silver coin not to exceed one-fifth of the whole) equal to the excess be held. On two banks uniting, the combined circulation of both may be retained. No new bank of issue may commence business.

Some peculiarities of the Irish Act are :—

- (a) A bank may surrender its issue, compound with the Bank of Ireland, and use Bank of Ireland notes—the latter increasing its authorised circulation to the full amount of the authorised issue so withdrawn. In a similar case in England, the Bank of England is empowered to increase its authorised circulation by two-thirds of the amount of the lapsed issue; for Scotland there is no corresponding provision, and an issue which once ceases is entirely abolished.
- (b) While notes issued by English and Scottish banks are (with the exception of those of the Bank of England, which are payable both at the branch of issue and at the Head Office) payable only at the Head Offices, Irish notes are payable at any of the branches. This necessitates the keeping of larger stocks of gold at the branches of the Irish banks as compared with the Scottish banks.
- (c) Some of the Irish banks having their Head Offices in London, the security coin for the excess circulation

may be held at not more than four principal places of issue in Ireland, not more than two of which may be in the same province.

5. What considerations have to be taken into account by a bank before deciding to open a new branch ?

Answer

- (a) The population and prosperity of the locality.
- (b) Would a branch attract new business ?
- (c) Would it be of convenience to existing customers, and so retain business which might otherwise be lost ?
- (d) How many other banks are represented ?

6. Indicate the principal sources of a bank's profits and the chief items of its expenditure. Give a specimen " Profit and Loss Account " of any Scottish bank.

Answer

A bank's income arises from : Discount on Bills, Interest on Loans and Overdrafts, Dividends from Investments, Commission, and Rents from Properties.

The chief items of expenditure are : Salaries, Stationery, Rents, Taxes, Maintenance of Property (and, of course, if we include money paid to customers, Interest on Deposits).

<i>Profit and Loss Account</i>		
<i>Dr</i>		<i>Cr</i>
To Expenses of Management	By Balance from previous	
„ Transferred to Reserve	year.	
Fund	„ Gross Profits.	
„ Provision in Reduction of		
Cost of Property.		
„ Applied in Payment of		
Dividend.		
„ Balance of Profits carried		
forward		

YEAR 1907

1. Compare the currency systems of Canada and the United States of America.

Answer

In all essentials the currency systems of Canada and the United States are similar. The unit of value in each case is the gold dollar, containing 25·8 grains of standard gold nine-tenths fine, or 23·22 grains of fine gold. Silver coins are legal tender to the extent of ten dollars, and copper to the extent of 25 cents.

There is no coin in Canada corresponding to the American silver dollar, over which prolonged controversy has taken place between bi-metallists and mono-metallists. The silver dollar

possessed full legal tender in the United States until recent years, but its coinage is now strictly limited, as is its legal tender power.

Government paper is legal tender in each country—Dominion Notes, and U.S.A. Notes or “Greenbacks.”

Banknotes are issued by the Canadian banks on the security of the duplicate liability of shareholders, a first lien on the assets, and the Bank Circulation Redemption Fund. In the United States the issues of the National banks are secured by a deposit of United States Bonds. There are also current in the States various forms of paper—Gold Certificates, issued by the Treasury, for the most part to bankers, against deposits of gold coin; Silver Certificates, issued against deposits of silver, and redeemable in silver dollars; and Treasury Notes of 1890, issued for purchase of silver—legal tender, and redeemable in gold or silver.

2. Give a brief account of the establishment of the following banks: The Bank of Venice, The Bank of Amsterdam, The Bank of England, and The Bank of Scotland.

Answer

The Bank of Venice—probably the first institution to be called a “bank”—was established in 1156. It was not a bank according to our use of the term, but simply an office for the transfer of government securities, representing the National Debt, being forced loans raised to carry on wars with Rome. The Bank of Venice as a bank of deposit was founded in 1619.

The Bank of Amsterdam was not at its inception in 1609 a bank in the modern sense, but was styled the “Exchange Bank.” The currency of the country was in a state of confusion owing to the variety of coins in circulation, and their poor condition. It was the purpose of the bank to remedy this state of matters, and they effected it by taking exchange business entirely out of the hands of brokers, securing a monopoly of deposit banking, and creating “bank money” (transferable credits) of uniform value against deposits of specie at its bullion value.

The Bank of England dates from 27th July 1694, when a Charter granting certain privileges was issued in name of the “Corporation of the Governor and Company of the Bank of England.” The Charter was awarded in respect of the sum of £1,200,000 having been lent to the Government by some forty wealthy London merchants—this being the means devised by William Paterson of raising funds to discharge the indebtedness incurred in the war with France.

The Bank of Scotland was established by an “Act for erecting a Publick Bank” passed by the Scots Parliament on 17th July 1695. The Act provided for a “Joynt Stock amounting

to the sum of Twelve Hundred Thousand Pounds (Scots) Money" (£100,000 sterling) and conferred a monopoly of Scottish banking for twenty-one years. Mr John Holland, a London merchant, was the first governor, and at the outset the directors were chosen half by the London proprietors and half by the Scots proprietors; subsequently English interest waned, and the practice of electing London directors was dropped.

The bank started business in the following year, with a capital of £10,000 (10 per cent. on the subscribed capital), two-thirds of which was taken up in Scotland and one-third in London.

3. Discuss generally the high rate of interest during the past winter, indicating its causes and the remedial measures adopted.

Answer

The abnormally high rates ruling during the period referred to were rendered necessary on account of large withdrawals of gold from the Bank, for Egypt and the United States. So persistent was the drain that the reserve—always at so fine a figure that the effects of even comparatively small fluctuations are felt—was somewhat seriously menaced.

When the reserve stands in need of protection or replenishment, the measure adopted by the Bank of England is the raising of their rate of discount. A train of circumstances follows this action, whereby the exchanges are moved in our favour; it is made unprofitable for gold to be taken from us, and an inducement is afforded which attracts foreign capital to London.

4. Tell what you know of the constitution of the Bank of France and the position it occupies in that country.

Answer

The operations of the Bank of France are under the direction of a governor and two sub-governors, who are appointed by the State, along with a council consisting of fifteen regents and three auditors elected by the shareholders. Three of the regents must be chosen from the Treasury Disbursing Agents, and three auditors and five regents must be selected from the business portion of the shareholders. Only the two hundred largest holders are allowed to take part in the proceedings at Annual Meetings. On the nomination of the governor the State appoints the managers of the branches. Every six months a statement of operations is furnished to the Government.

The Bank of France is thus more closely connected with the Government (it was founded by the first Napoleon) than is the Bank of England; but, like the latter, it is owned by private

parties, and its position is somewhat analogous to that occupied by the Bank of England. It is banker for the State, has charge of the Cash Reserve (the largest in the world), enjoys the exclusive right of note issue, and discounts enormous quantities of bills—many of them trifling in value. Its deposit business is comparatively small, the lion's share of this description of business—a growth of quite recent years, largely superseding the function of issue—being in the hands of other banking institutions.

5. A Scottish Bank's Liabilities are supposed to be as follows:—Paid-up Capital, £1,000,000; Reserved Funds, £1,000,000; Deposits, £12,000,000; Acceptances, £1,000,000; and Note Circulation, £1,000,000. Indicate fully, with reasons, in what forms and proportions these funds should be employed.

Answer

The following Balance Sheet might be constructed:—

Liabilities		Assets	
Deposits . . .	£12,000,000	Cash in hand, and	
Note Circulation . .	800,000	Money at Call and	
Drafts outstanding . .	200,000	Short Notice . .	£2,500,000
Acceptances . . .	1,000,000	Consols and other	
Capital . . .	1,000,000	Government Securities . . .	2,500,000
Reserve Funds . . .	1,000,000	Other Stocks . .	1,500,000
		Securities against	
		Acceptances . .	1,000,000
		Bills and Advances . .	8,000,000
		Property . . .	500,000
	£16,000,000		£16,000,000

The Deposits, Note Circulation, and Drafts are liabilities to the public. In ordinary circumstances their amount does not show much fluctuation; but, on the other hand, the bank is exposed to the possibility of their being either augmented or depleted.

It is necessary, therefore, to maintain not only sufficient till-money to meet ordinary requirements, but also a reserve in liquid form to which recourse may be had to meet unusual demands. This reserve should consist chiefly of money with London brokers, and Government Securities, and a portion may be invested in high-class securities of a general nature. The proportion of the two former items to the liabilities to the public may be placed at about one-third.

The available Capital and Rest, and the remainder of the public liabilities may be advanced on bills and in the shape of overdrafts and loans, in proper proportions.

Acceptances form a contingent liability only, and are covered by specially appropriated securities.

6. Discuss the merits of Private and Joint-Stock Banking.

Answer

The merits of Private Banking are not readily apparent, having regard, at any rate, to modern conditions. It may be said of the Private Banker that, as he was his own master, he could do pretty much as he pleased, and the establishment would take its character from that of the proprietor or partners. Personal considerations might enter into questions of management, of a kind which are entirely excluded under the modern system of Joint-Stock Banking, conducted on broad principles rather than on local traditions.

The manager of a Joint-Stock Bank wields, of course, enormous sway: his rule, however, is *impersonal*, and he is accountable to his directors, and they in turn to the shareholders. Consequently the latter description of bank will, as a rule, be more strict, but also more impartial in matters of accommodation, security, and charges, and will have a keener eye to the earning of dividends and the avoidance of bad debts. Banking in these circumstances will be on a safer footing, and in the long run better service is thus rendered to the country than by affording facilities and encouragement to weak parties.

Joint-Stock Banks are conducted on a much larger scale than it was possible for the Private Bank to be. Customers thus gain the security of large capitals and funds, and banks gain in stability by having their resources spread over a large tract of country and invested in many varied interests—whereas the prosperity of a Private Banker was generally dependent entirely upon trade conditions in one particular district. Further, a service is rendered to the country when its capital is made readily transferable from places where it is superabundant to others where it can be employed.

Transactions on a scale impossible to the Private Banker may safely be undertaken by large Joint-Stock Banks, and borrowers may depend upon stronger support.

For obvious reasons a Joint-Stock Bank has at its command, in the persons of directors, manager, and chief officials, a body of administrators far more qualified than the “partners” of a small concern could possibly be.

YEAR 1908

1. What is Bi-metallism, and under what circumstances did this country adopt the Gold Standard?

Answer

“Bi-metallism” is the term used to describe a currency system where both gold and silver are standards of value; a

ratio is fixed between the values of the two metals; gold and silver bullion of the proper standard is freely accepted and minted; and gold and silver coins are full legal tender.

The Gold Standard was established in Great Britain on 16th June 1816, after a long series of vain attempts to fix by legislation a permanent relationship between the value of gold and that of silver. Owing to constant fluctuations in the relative values, the currency suffered periodical derangement, and the problem was solved by the adoption of "mono-metallism"—gold being made the standard of value and full legal tender, with a subsidiary silver coinage not legal tender for more than forty shillings.

2. Describe briefly the monetary situation of the United States of America during the past winter, and indicate the effects of the crisis there upon (a) that country, and (b) other countries.

Answer

The monetary situation in the United States at the time referred to was one which has come to be regarded as not uncommon—one of severe crisis and considerable failures. The carrying too far of the speculative element in commerce was at the root of the disturbance:

- (a) Over-trading and over-production brought in their train loss of public confidence and hoarding of gold, with the consequent over-issue of paper, and a gold famine. The natural results were the breakdown of credit, general suspension of cash payments, and dislocation of trade.
- (b) The effect was felt in Europe in the shape of a great demand for gold on account of America. Immense quantities of the precious metal left London and Paris for New York, and discount rates all over Europe rose in consequence—not regarded as a favourable state of matters from the European standpoint.

3. What are the functions of a Banker?

Answer

The functions of a Banker may be classified broadly under borrowing and lending.

(a) A Banker borrows in the shape of:

(1) Deposits.—Money placed with him by his customers, on part of which he may allow interest, and on the remainder no interest.

(2) Note Circulation.—By this means of lending his credit he borrows resources.

(b) The money borrowed from the public, and the available capital and reserve funds are lent in the shape of:

- (1) Bills of Exchange, on which discount is charged.
- (2) Advances to customers, with and without security, bringing the Banker interest.
- (3) Loans against Stocks, etc. for short periods, bearing interest.
- (4) Investments in public securities etc., for the purpose both of maintaining a liquid reserve and of earning a dividend.
- (5) From the till-money in hand, the Banker of course gets no income.

4. Give an account of the formation of the Imperial Bank of Germany, and indicate its chief characteristics.

Answer

The Imperial Bank of Germany was established in 1875. Before the various States were united, in 1871, as the German Empire, each had its own system of banking and currency. The coinage was in an extremely worn condition, silver being the general standard of value. In 1873 the gold standard was adopted, and in 1874 the law provided for local note issues being superseded by Imperial paper. The foundation of an Imperial State Bank was the next step in placing the financial fabric on a sound foundation, and the Bank of Prussia—already a State Bank—was converted into the Bank of the Empire, or *Reichsbank*.

Banking in Germany is controlled by the Act of 1875, the provisions of which are in the main similar to those of the English Act of 1844. The chief differences are:—

- (a) The Imperial Bank is really a State Bank, the Government has the option of taking it over at a valuation, shares the profits along with the shareholders, and an Imperial Board, with the Chancellor of the Empire as President, supervises the bank—the directors being subject to the Chancellor.
- (b) The German Bank Act contains an “Elastic Clause”—*i.e.* it permits the issue of the notes of the Imperial Bank beyond the amount originally authorised to be issued uncovered and the amount issued against gold. When this “elastic” limit is overstepped a tax of 5 per cent. is levied on the excess (which must be covered by good discounted bills not having more than three months to run). The Bank in these circumstances is forced to raise its rate; and the other banks are not allowed to discount at a lower rate when the Reichsbank is charging 4 per cent. or more—at other times they may charge only $\frac{1}{4}$ per cent. less than the Bank. This provision has been made frequent use of.

In this country in similar circumstances an Act of Parliament would be necessary to permit the Bank of England to exceed its authorised limit. This proceeding has been resorted to on three occasions—viz. in 1847, 1857 and 1866.

5. Write a short article upon the Gold Reserves of this country.

Answer

For a number of years this country has been much occupied as to the sufficiency or otherwise of its Gold Reserve. Although schemes for reconstructing the method of holding the reserve, with a view to having it permanently increased, have been suggested by various eminent individuals and committees, the question has not yet been settled.

Of course, it is not desirable to have too large a reserve, because so much accommodation is withdrawn from commerce, and so much profit is lost. What is aimed at is a reserve which will meet without difficulty, and without frequent derangement of the money market by change of rate, not only the ordinary requirements of our own trade, but also extraordinary demands, to which we are peculiarly liable to be exposed from our position as a free market for gold.

The Bank of England is the banker of all the other banks of this country, and from the Bank of England reserve they must replenish their till-money. This reserve is, say, £31,000,000; while bankers' liabilities amount to something like £1,000,000,000. There is pretty general agreement on the opinion that we are working with too narrow a margin. The sensitiveness of our reserve is indicated by the fact that the discount rate from 1844-1900 changed four hundred times in the case of the Bank of England, as compared with one hundred and eleven times in the case of the Bank of France.

When we advance a step, however, and come to such considerations as the increase required, the responsibility of providing it, and the source from which it is to be obtained, we enter upon a highly controversial region. As to the amount of reserve necessary, there is nothing like general unanimity. The problem of responsibility is rendered difficult because of the anomalous position of the Bank of England as custodian of the reserve, and at the same time under private management; while the share to be borne by the other banks, and the contribution to be made by the Government (particularly in respect of Savings Banks—for which no reserves are provided—and also because of our liability to foreign drain, and consequent disadvantage to commerce) are further questions involving serious difficulties in the way of a settlement.

Indeed, so many interests have to be protected that it would seem next to impossible to devise a scheme which would meet

with general approval ; and it is likely that in ordinary circumstances we shall continue to look to the " Bank " to safeguard the national wellbeing.

(See also Year 1910, Question 3.)

6. What results have generally followed from the combination of banking and mercantile business in one establishment ? Illustrate your answer with examples, and indicate what principle may be deduced.

Answer

The usual result of the combination of banking and mercantile business in one establishment has been disaster. Although the two interests are, in the long run, mutual, yet they cannot go hand in hand because the lines on which they are respectively conducted are different.

Successful trading calls for a certain amount of " venture," into which all available resources should be thrown. Banking, however, must be conducted on proved economic principles, and history reveals the fact that when banking interests are made subservient to those of commerce (to which there is naturally a powerful temptation) these scientific principles are lost sight of.

The cases may be instanced of the Land Bank and the South Sea Company, which were the rivals of the Bank of England—legitimate banking was successful, while hybrid concerns went to the wall. In Scotland there have been three outstanding failures—the Ayr Bank, Western Bank of Scotland, and City of Glasgow Bank—all directly due to the influence of mercantile houses over the directors, leading to their forsaking sound traditions in order that particular mercantile firms might be supported.

From these facts the principle is deduced that banking and trading are, for their mutual benefit, better undertaken by separate parties.

YEAR 1909

1. Enumerate the various forms of currency in use in this country. Explain their different functions and indicate any abuses to which they may be liable.

Answer

The currency in use in this country takes the form of (a) Paper Money, and (b) Metallic Money.

(a) The paper currency consists of banknotes. Bank of England notes are legal tender in England only (except by the Bank itself). Banknotes are issued by some of the English Provincial Banks and by all the Scottish and Irish banks, and are convertible into legal tender on demand.

- (b) Our coinage system consists of gold, silver and bronze coins, with gold as the standard of value, and the sovereign as the unit of currency. Gold coin is legal tender to any amount; silver to the extent of £2, and bronze to the amount of one shilling.

The primary function of money is to serve as a medium of exchange. The necessary features of a good currency are: easy divisibility into all desired grades of value, easy transportability, durability, certainty in value, inexpensiveness of maintenance, and elasticity.

Easy division into any amounts is obtained by having a large number of denominations, in both paper and metallic currency. The transportability of large amounts is secured by the use of banknotes where desired, and by having the higher denominations of the coinage made from the more precious metal and the lower from the less precious. The shape of the coins is due to regard for durability and serviceableness; certainty in value of the subsidiary currency is secured by the gold standard; and the inexpensiveness and elasticity of the paper currency are not the least useful of its characteristics.

The abuse to which paper currency is liable is depreciation, owing to over-issue—*i.e.* issue beyond the limits of immediate convertibility into gold.

Metallic currency is open to a similar abuse—that one metal may depreciate in relation to another—guarded against by the fixing of nominal legal tender values in the case of the “token” coins of baser metals, and to the further abuse indicated by “Gresham’s Law”—that poor money (worn coins and others not worth their face value) drives good money out of circulation.

2. Describe the banking system of Mediæval and Modern Italy.

Answer

Banking of the modern type is considered to have had its origin in Italy, and the Bank of Venice may be looked upon as the first bank. It did not carry on such operations as have now come to be classed as “banking,” but was the agency devised by the Government for dealing with forced loans raised in order to carry on war with the Roman Empire—issuing and transferring the stock certificates of creditors.

The first banks of Florence and Genoa were founded for a similar purpose. The Bank of St George, established in 1407, was more than a mere loan office, it was really the State Bank, and it even equipped at its own expense expeditions which led to the conquest of Corsica.

The immediate precursors of modern bankers were the

merchants of Lombardy and the cities of Italy. Deposit banking and issuing of notes in Venice date from about 1587, and the Bank of Venice proper was inaugurated in 1619.

Modern banking in Italy may be said to have had its birth after the Napoleonic wars had changed the map of the country. The first bank was the Bank of Genoa, established in 1844, partially under Government auspices. The Bank of Turin followed in 1847, but was taken over by the Bank of Genoa in 1849, the joint concern becoming the "National Bank of Sardinia." In 1859 it was reorganised as the "National Bank of the Kingdom of Italy." Competing with the National Bank were five other banks of issue—the Bank of Naples, Bank of Sicily, Bank of Tuscany, Tuscan Bank of Credit, and the Roman Bank.

The whole system was unified after the severe troubles of 1892-1893, which swept away the Roman Bank. In 1893 the National Bank of Italy was amalgamated with the National Bank of Tuscany and the Tuscan Bank of Credit as the "Bank of Italy": leaving three great banks of issue which are subject to Government supervision.

There are in addition a very large number of credit societies, who lend to the humbler members of society, and get special terms for re-discounts from the large banks.

During more recent years the banks have rendered the country great service in rescuing it from the serious condition into which its finances had fallen owing to the depreciation of paper currency.

3. What are the advantages of amalgamation to the banks concerned, and what is its effect upon our general banking system?

Answer

An advantage aimed at by amalgamation is increase of profits. The expenses connected with the management of the united concern will be less than the combined totals of those of the amalgamating banks, while the proportionate earning power of a large bank is greater than that of a small one. The larger figures shown in the Balance Sheet indirectly lead to increase of business—at the same time enabling the bank to undertake large transactions which otherwise it could not look at.

If the new bank has a large number of branches in various parts of the country, increased facilities are afforded for the flow of capital to meet demand; the bank's business is made more stable than if it were confined to a single district; and, the risks being more widely distributed, the rate of profit earned should be steadier.

The broad results of amalgamation (in England) are that the private banker has practically disappeared, while the smaller

joint-stock banks are rapidly being merged in the larger establishments. The banks engaged in business therefore tend to become fewer in number, and vastly greater in power. So far, there is no appearance of anything like monopoly ; and, while the failure of one of these huge institutions would involve loss on an unparalleled scale, on the whole the depositor gains better security, the borrower stronger support, and the shareholder larger dividends.

It is also an undoubted advantage that, if united action on the part of the banks becomes at any time necessary or desirable, the number of these should not be so great as to make co-operation difficult.

4. How should a Banker conduct his business during a period of financial disturbance ?

Answer

A Banker's conduct of his business during such a period would depend largely on his particular circumstances ; but the following general rules are applicable :—

- (a) Support should not be summarily withdrawn from customers who are known to be solvent, though temporarily embarrassed. Such action would simply aggravate the distress, while the bank which deserts its customers on a rainy day will find itself in bad grace when the sun shines again.
- (b) Reserves must be protected. This is effected by raising the rates of discount and interest, thus discouraging hoarding, inducing depositors to leave their money where it is, and preventing weak borrowers and those not really pressed from seeking fresh facilities.

5. Discuss historically and practically the peculiar position occupied by the Bank of England.

Answer

The Bank of England, established by Act of Parliament in 1694, was the outcome of a scheme put forward by William Paterson whereby money might be subscribed and lent to the Government in support of the war with France. In spite of the opposition of goldsmiths and moneylenders, the venture was successfully launched ; the sum of £1,200,000 was lent to Government at 8 per cent., while £300,000 raised in exchange for annuities provided the working capital of the bank. A Charter extending for ten years authorised the issuing of notes to the extent of the subscribed capital.

In its early years the bank encountered much opposition, and its struggle for existence was hard. The Charter, however, was renewed from time to time, with alterations in the matter of privileges. In 1708 it obtained a monopoly of Joint-Stock

Banking in England, and Private Banking firms were limited to not more than six partners. An injurious result of this provision was the formation of a large number of petty concerns which in times of stress collapsed in a wholesale manner.

In 1797, owing to threatened invasion by Napoleon, a severe crisis was experienced throughout the country, and so great was the drain on the bank's reserves that an Act was passed enabling it to suspend cash payments, which were not fully resumed until 1821.

The monopoly of Joint-Stock Banking was removed in 1826, except within a radius of sixty-five miles of London, and the bank opened several branches in the provinces. In 1833, Bank of England notes were made legal tender except by the bank itself and its branches. The monopoly of Joint-Stock Banking was surrendered, and it became open for Joint-Stock Banks to do business in London provided they did not issue notes. The London and Westminster Bank was the first of such banks.

The Bank of England is now administered under the provisions of the Act of 1844, to the effect, briefly, that (a) The bank was divided into two separate departments—the Issue Department and Banking Department. (b) The Government Debt and other securities, amounting in all to £14,000,000, were transferred to the Issue Department, along with sufficient coin and bullion to make the whole equal to the amount of notes outstanding in circulation. For any additional issue of notes by the Issue Department an equivalent amount of bullion must be exchanged. (c) If the right of issue is relinquished by any other English bank, the Issue Department may increase its issue of notes against securities to the extent of two-thirds of the lapsed issue.

Owing to the fact having been overlooked that gold may be withdrawn by forms of bank credit other than notes—*e.g.* deposits—this Act has failed to secure perfect elasticity of circulation, and to meet requisite expansion of issue in times of stress; it has had to be suspended on three occasions—in the crises of 1847, 1857, and 1866.

In 1890 the bank made a new departure when it invited and received the co-operation of the other large banks in affording assistance to the firm of Barings.

The management of the Bank of England is vested in a governor, sub-governor, and twenty-four directors, who meet every Thursday in the "Bank Parlour," consider the Weekly Return, and fix the bank rate. By means of the rate the Bank regulates the national gold reserve; and in virtue of its dominant position in the one free market for gold, it may be said to be the world's chief distributor of the precious metal. It is at the

head and centre of the British banking system, is the bank of all the other bankers, and the ultimate resort of the money market.

The privileges it now enjoys are: (a) Monopoly of note issue within sixty-five miles of London; (b) Its notes are legal tender save by itself; and (c) The country, to protect its own money, supplies a military guard at the Bank every night.

The bank has never been under State control, but it is the State's banker; it receives the National Revenue; meets National Expenditure; issues Exchequer Bills; raises Government Loans; manages the Consolidated Debt; and acts as financial adviser of the Government. It acts as Agent for the Mint, maintaining the national currency, and is the banker of the Clearing-House. In addition, it conducts all the usual operations of a public bank—lends to stockbrokers, bill brokers, and others—allowing no interest on deposits. Its capital (the largest in the world) is £14,553,000.

6. What are Agricultural Credit Banks and on what principles are they based? Consider their applicability to Scotland.

Answer

Agricultural Credit Banks, as the name implies, are institutions catering for the agricultural interests of the community. The system, as in vogue on the Continent, is based on co-operative principles; a borrower must first have become a member and must hold shares; and the conduct of the business is in the hands of a committee of members. Generally these credit societies act as intermediaries between the farmers and the large banks, from which they get special terms for the rediscounting of bills. On the Continent the system appears to have worked successfully, and there is no doubt that it has certain admirable features.

The question of its adoption in Scotland has had some consideration both from the farmers and from the banks, but the country has not been convinced of its desirability. Our banking system has grown to a very highly developed state along quite different lines; accommodation is freely afforded to farmers; the intervention of local committees does not seem to be called for in a country where every village has its branch bank; and, indeed, it may be doubted whether the Scottish farmer would take kindly to the submission of his business to his fellow-agriculturalists.

YEAR 1910

1. Sketch briefly English Banking up to the date of establishment of the Bank of England.

When, and for what immediate object, was that bank established?

Answer

The Jews, who first came to England about the time of the Norman Conquest, were the earliest dealers in money. Their knowledge of trade, combined with their frugal habits, put them in possession of great wealth, and they naturally became moneylenders. So extortionate became their terms, however, that they were expelled from the country in 1290, and not until the time of Oliver Cromwell were they readmitted.

Their place was taken by the Lombards—Italian merchants from Genoa, Lucca, Florence, and Venice—who advanced sums to Governments and to private individuals; and, their trade being considered odious, their charges for interest or “usury” were proportionately high.

Money-changing from the time of Edward III. was looked upon as a prerogative of the Crown. This was a traffic which was open to obvious abuse, and when it gradually got into the hands of goldsmiths—notwithstanding the efforts of Charles I. to restrict their trade to the ordinary dealing in gold and silver bullion—it became such a source of profit to them that they gave up their proper business to engage in money-changing.

In 1645 the Goldsmiths extended their operations to include “deposit banking”—*i.e.* they borrowed money from the public, on which they allowed interest, and with which they financed the king, on the security of the National Revenue, at exorbitant rates. The receipts they issued for money lodged with them were called “Goldsmiths’ Notes,” and may be regarded as the first kind of English banknotes.

After Charles I. had, in 1640, confiscated £200,000 belonging to merchants who had placed that sum in the Tower for safety, the goldsmiths became custodiers of the wealth of the city. These “new-fashioned bankers,” as they were called, were accused of upsetting the trade of the country, depreciating the value of land, and attracting all the capital of the country to London. In 1667 the goldsmiths were subjected to a “run” owing to the appearance of the Dutch fleet in the Thames, and, in order to restore confidence, the king had to guarantee repayment of the sums owing by the Exchequer.

In 1672 Charles II. refused to pay either interest or the principal sum of £1,328,526, which he had borrowed at 8 per cent., and although he subsequently resumed payment of the interest at 6 per cent., this robbery ruined half of the goldsmiths.

The Bank of England, established in 1694, was the outcome of a scheme—successfully carried out despite the opposition of goldsmiths and capitalists—framed by William Paterson,

whereby certain persons should "voluntarily advance the sum of Fifteen hundred thousand Pounds towards carrying on the war with France." The sum of £1,200,000 was lent by the subscribers to the Government at 8 per cent., while £300,000, raised in exchange for annuities, provided the working capital of the bank.

2. What forms the legal tender of Great Britain and Ireland? When was the currency of Ireland assimilated to that of England?

Answer

Under the Coinage Act of 1816, the following are legal tender :—

- (a) Gold. Sovereigns weighing not less than $122\frac{1}{2}$ grains, and half-sovereigns of not less weight than 61.125 grains, are legal tender to any extent.
- (b) Silver coins (now "tokens"—i.e., coins the exchange or nominal values of which are greater than their metallic values) are legal tender to the amount of forty shillings.
- (c) Bronze coins (also "token" coins) are legal tender to the amount of twelve pence.

Under an Act of 1833, Bank of England notes became legal tender in *England and Wales*, except by the Bank of England and its branches.

In 1825 an Act was passed entitled "An Act to provide for the assimilation of the currency and monies of account throughout the United Kingdom of Great Britain and Ireland" (6 George IV. cap. 79).

3. What suggestions can you offer for strengthening the position of this country's Gold Reserve?

How is the maintenance of an increased reserve calculated to influence rates of interest?

Answer

The following proposals for strengthening the position of the Gold Reserve have emanated from various quarters :—

- (a) Repayment by the Government of its debt to the Bank of England of £11,000,000. Out of regard to the fact that the Bank of England reserve is also the only one available for Post Office and Savings Banks depositors, it is considered that the Government should contribute in this manner.
- (b) The formation of a second reserve by means of a proportionate levy in respect of the deposits of the banks (including Trustee Savings Banks); or by increasing their capitals.
- (c) The holding of special reserves by the banks them-

selves, the figures not to be published, but to bear a certain proportion to their deposits.

- (d) The maintenance by the banks of larger balances at the Bank of England, with corresponding increase in the reserve.
- (e) Custody by the Bank of England of the surplus gold held by the bankers, and of the amounts held by Scottish and Irish banks against the excess of their note circulation over the amount of authorised issue.
- (f) Issue by the Bank of England of £1 notes.
- (g) Publication by the banks of monthly accounts, showing their stock of gold.
- (h) The adoption of the "elastic" system (as in Germany) permitting the bank at discretion to issue notes beyond the amount authorised, on payment of a tax to Government.

Most of these suggestions, of course, are highly controversial, and valid objections may be put forward by the various parties interested. See Year 1908, Question V.

The effects of the maintenance of an increased reserve would be, probably, the prevalence of higher rates than at present, with less frequent fluctuations.

4. What were the principal objects of the Companies Act of 1879, and what particular occurrence led to the passing of that Act?

Answer

Act 42 and 43 Vict. c. 76 (the Companies Act, 1879) was "An Act to amend the Law with respect to the Liability of Members of Banking and other Joint-Stock Companies, and for other purposes." Its chief provisions were:—

- (a) The principle of "Reserve Liability" was introduced—*i.e.* a company registered under the Act might resolve that a proportion of its nominal or uncalled capital might be capable of being called up only in the event and for the purpose of the company being wound up.
- (b) Banks of issue registered as Limited Companies were not to be entitled to limited liability in respect of their notes.
- (c) A compulsory independent annual audit was provided for: the balance sheet to be signed by the auditors, by the secretary or manager, and by at least three directors.

The Act was the outcome of strong pressure brought to bear upon the Government by the country, after the unprecedented disaster which befell the unfortunate shareholders

of the City of Glasgow Bank. It had been so borne home that opulent holders of shares to which unlimited liability was attached might be summarily reduced to penury, that the necessity for an amended system became immediate.

5. Give a short account of Banking in Holland and of that country's currency.

Answer

The Bank of Amsterdam, established in 1609, was an "Exchange Bank," whose function it was to bring into order the currency of Holland, which was in a state of great confusion owing to the variety of coins in circulation and their non-conformity to the standard. The bank was granted a monopoly of all the operations of Banking, and it received deposits of coin at bullion value, exacted a charge, and granted credit in lawful or "Bank Money."

It was long believed that the bank kept in its vaults the equivalent in metal for such deposits; but as early as 1657, advances had been allowed, and later it became heavily involved in loans granted to the Dutch East India Company. The bank's career was closed in 1819 by Royal Decree.

Its place was taken by the Bank of the Netherlands, established in 1814. It is a private institution, but is under Government supervision, and there is a State tax on the profits. The bank conducts all usual Banking operations and has since its inception been the only bank of issue in Holland. There is no fixed limit to the circulation, but a metallic reserve equal to 40 per cent. of the notes and deposits is required to be maintained.

There are also in Holland ordinary Banks of Deposit, Credit Societies, Savings Banks, Mortgage Banks and miscellaneous institutions conducting various departments of Banking business.

Since 1875 gold has been the standard of value, and in addition the silver coinage dating previous to 1875 is legal tender. The currency of the country consists chiefly of silver and paper. Gold is freely supplied by the bank for export purposes, in order to secure the parity of the exchanges, and prevent a premium being placed on gold, which would throw the country on a silver basis; but for domestic circulation gold is sparingly issued, and the gold standard is maintained on a very small amount of the metal.

The standard coin is the 10-gulden piece, containing 6.720 grammes of gold, nine-tenths fine, which gives as par of exchange £1=12.11 gulden (nearly). The silver florin weighs 10 grammes, .945 fine. Government notes are issued to the extent of 15,000,000 gulden; and there are in addition the notes of the Netherlands Bank.

6. What principles should guide a bank in the employment of its reserves, and of what should these be composed ?

Answer

The following general principles should be observed :—

- (a) The reserves should bear a proper proportion (according to the bank's position) to the deposits and other public liabilities.
- (b) They must be in such a form as to be readily realisable.
- (c) There ought to be no risk of loss from fluctuations in their value.
- (d) As large a return as possible—consistent with the above-mentioned essentials—should be yielded.

Each bank keeps in its till or with its London bankers sufficient money to meet all its ordinary requirements. The form of liquid reserves next resorted to is the money at call and at short notice with London brokers ; this is readily callable, easily adjustable to circumstances, and certain in value. Consols and other Government securities are investments *par excellence*, the value of which above all others remains practically steady at times when other stocks are depreciated. They are always saleable, and as they are generally written down in value a sale in a depressed market would not affect the profits ; temporary loans may be raised against them. Banks may hold other Stock Exchange investments, which give a better return, and in ordinary circumstances are convertible into cash at normal value.

(See also Year 1906, Question 3.)

THEORY AND PRACTICE OF FOREIGN EXCHANGES

THE study of this department of Economics is rightly considered of such importance in its bearing upon banking principles and practice, as to merit special treatment in a separate paper.

It is an exceedingly interesting subject ; but students at first frequently find a difficulty in grasping the fundamental principles on which the science proceeds—and this in spite of the excellent text-books available—because of their having no occasion in their daily routine to meet with the practical application of the theory.

The first essential to the study of a science is a grasp of its definitions ; and from the outset a determined effort should be made to apprehend the exact significance of the various terms used in connection with the Foreign Exchanges. The meaning of “ Par of Exchange ” should be clearly understood, and it will save confusion if it is borne in mind that “ rate ” of exchange is simply “ price ”—the expression of an amount of one currency in terms of another.

Many students are misled by the very attempts on the part of text-books at elementary explanation, and fall into the strange error of supposing that each country keeps a “ trading account ” with other countries with which it has dealings. Of course there is no such thing as a “ National Account ” in this sense ; each separate transaction is settled for by the parties to it, and “ international indebtedness ” is a term intended to convey no more than the *aggregate* of sums owing by individual members of the community.

Clare’s “ A B C of the Foreign Exchanges ” is the one essential work. It remains unexcelled as a clear exposition of the theory and practice, and a mastery of it will ensure success. It may be supplemented, however, by portions of books already in the possession of the student. The chapters on Foreign Exchanges in Nicholson’s “ Political Economy,” Scott’s “ Money and Banking,” or Sykes’ “ Banking and Currency ” will be found useful, while the article by Clark in “ Notes on English and Foreign Banking, etc.” affords splendid exercise for revision.

Much of the material contained in the “ A B C ” is embodied in the same writer’s Money Market Primer. The latter work includes chapters on the Money Market, as does “ Banking and Currency ” ; and from either of these (or from books by other

standard writers on the Money Market) may be obtained information on practical matters with which it is impossible for students to become acquainted at first hand.

The study of Goschen's work may be postponed until a fair amount of progress has been made in knowledge of the subject.

YEAR 1906

1. Define "Par of Exchange" and quote "par" between London and the following places—viz. Berlin, Paris, Calcutta, New York, and Stockholm. Explain what is the value of the silver coins, Mark, Franc, Kroner and Rupee in this country, also in the countries where issued.

Answer

The term "par" means equality, and "Par of Exchange" would indicate a condition of affairs in which the demand for and the supply of bills drawn on a certain country were equal to each other. This is sometimes called Real Par, but so long as nations employ different currency systems it is impossible to determine whether demand and supply are equal.

By the expression, "Par of Exchange," however, is generally meant Nominal or Mint Par. This is arrived at by establishing a comparison between two different currency systems, based on the weight and fineness of the precious metal contained in their respective standard coins, as fixed by law. For example, we say that the par between Britain and France is 25.2215—meaning that the amount of pure gold contained in a sovereign is the same as that contained in an amount of French currency expressed as 25.2215 francs.

Par of Exchange is therefore value for value in fine gold between gold standard countries, and value for value in silver between silver standard countries. There can, of course, be no Par of Exchange between countries using different metals as a standard of value.

Par with Berlin. $20.43 \text{ reichsmark} = \text{£}1.$

Do. Paris. $25.2215 \text{ francs} = \text{£}1.$

Do. Calcutta. $\text{Rs. } 15 = \text{£}1$; or $1\text{s. } 4\text{d} = 1 \text{ rupee.}$

(In 1893 the Indian Mints were closed to the free coinage of silver, and the gold price of the rupee was fixed at 16 pence. *For Exchange purposes*, therefore, India may be reckoned a gold standard country.)

Par with New York. $\$4.86\frac{2}{3} = \text{£}1$; or $49\frac{5}{16} \text{ pence} = \$1.$

Do. Stockholm. $18.16 \text{ kroners} = \text{£}1.$

In this country the silver coins of other countries are worth the amount of our currency for which they will exchange;

they fluctuate in value, like other commodities, according to demand and supply, gold and silver *as such* having no fixed relationship.

In its own country, each of the coins mentioned has a value which depends upon its relation to the standard currency, as fixed by the Mint Regulations of the respective countries.

Thus the French Mint Law ordains that 1000 grammes of gold nine-tenths fine shall be coined into 155 napoleons of 20 francs each: hence 20 francs=1 napoleon, just as 20 shillings=£1.

2. What are Mexican dollars, what position do they occupy in China and other Eastern countries, and what effect has this position on their value?

Answer

The Mexican dollar is a silver coin issued by the Mexican Republic. It is about nine-tenths fine, and is worth about seventeen-twentieths of an ounce of standard silver.

There is no national silver coin in China, that metal being dealt in by weight; and recourse is had by merchants to the coins of other countries. Originally favouring the Mexican dollar because its purity could be relied upon, China has come to use it as current money (being legal tender after it has been stamped by the Chinese authorities), and custom and prejudice give it a unique standing.

In this connection the Mexican dollar is frequently in such demand that it sells at a higher price than its equivalent of standard silver is quoted at.

3. Can there be a Par of Exchange between countries using different metals for their standards? Give reasons for your answer. If it is in the negative, explain how prices in trade transactions between such countries are determined.

Answer

As the Par of Exchange depends upon the relationship which the currency of one country bears to that of another in respect of the fine metal contained in their respective units, it follows that when different metals are used as standards no par can be fixed, because there can be no fixed ratio between the two different commodities. If the standard of value in one country is gold, and in the other silver, the gold price of silver varies according to the demand for and the supply of the latter, and there can be no stable quotation of one in terms of the other.

(For answer to last portion of this question see Year 1908, Question 3.)

4. What are direct and indirect exchanges? State examples of each. What general effect, if any, has indirect exchange on the rates of allied exchanges?

Answer

A "direct exchange" has been conducted between two countries when bills upon one of them have been bought and sold in the other—*e.g.* when bills on London have been bought for remittance to this country.

It might happen that the London exchange was unfavourable to Paris, the Berlin exchange at the same time being favourable to Paris and against London. In such a case it might pay the Paris remitter to London to buy bills on Berlin and send them to London (thus buying cheaply bills which will sell well). This is an instance of "indirect exchange" or arbitration.

Indirect exchange has the effect of causing the rates of allied exchanges to rise and fall together, levelling differences in quotations in different markets, and preventing violent fluctuations.

YEAR 1907

1. Explain the meaning of the following quotation, keeping in view that the Mark, Kroner and Dollar are silver coins :—

The Par of Exchange	{ Berlin is	M20.43	} per £.
between London	{ Stockholm is	K18.16	
and	{ New York is	\$4.86	

State what condition is necessary betwixt two countries using different metals for their standards before there can be a fixed Par of Exchange between them.

Answer

Berlin.—The quotation means that the amount of fine gold in a sovereign is equivalent to that in an amount of German currency expressed as 20.43 marks (the 20-mark-piece being a gold coin).

Stockholm.—It takes 18.16 kroners to express the amount of Swedish money which, according to their law, is the equivalent of a sovereign.

New York.—The equivalent of the sovereign in American currency is 4.86 dollars, the comparison being based on the amount of fine gold in the standard coins of the respective countries. (The 10-dollar-piece is a gold coin.)

Before there can be a fixed Par of Exchange between two countries using different metals for their standards, it is necessary that there should be a fixed relationship between the values of the metals. There must be one form of currency (say gold or silver) common to both countries; and in one country it must be redeemable to any extent in terms of the other form.

2. What is the chief danger of an inconvertible paper currency? How is it possible to compare British sterling money with Argentine inconvertible paper money? Taking the

exchange on London at \$5 per £, and the gold premium at 140, what is the value of an Argentine paper dollar? Give your calculations in detail.

Answer

The chief danger of an inconvertible paper currency is over-issue, leading to depreciation. So long as inconvertible notes are not issued in excess of the currency requirements of the country, they may circulate at their face value, and perform the ordinary functions of currency as far as internal trade is concerned, although they are useless for settling transactions with foreigners.

But if the issue expands—say, at a time when trade is good—being inconvertible it lacks the quality of elasticity that a paper currency should possess; and the result is that when trade slackens the circulation fails to contract along with it and the value of the note depreciates. That is to say, the purchasing power of the note becomes less than its face or gold-value; and in these circumstances there is said to be a premium on gold.

In order that British sterling money may be compared with Argentine inconvertible paper money, the relationship existing between gold and paper in the Argentine—*i.e.* the extent of the depreciation of the paper currency—must be known.

When the gold premium is 140

100 gold	=240 paper.
5 dollars (gold)	=£1.
∴ 1 gold dollar	=4s.
∴ 1 paper dollar	= $\frac{100}{240}$ of 4s.
	=1s. 8d.

Or

? pence	=1 paper dollar
if 240 paper dollars	=100 gold dollars
and 5 gold dollars	=240 pence.

$$\frac{100 \times 240}{240 \times 5}$$

= 20 pence

=1s. 8d.

3. What chiefly causes fluctuations in the rates of exchange between London and foreign places; how may the Bank of England reserve be adversely affected by certain fluctuations; and how may such effect be corrected?

Answer

Rates of exchange fluctuate in accordance with the demand for and the supply of bills in the market. Demand and supply, in turn, are regulated by the influences of Trade, Banking, and

the Stock Exchange, and by considerations such as the rates of discount and the state of credit.

When the exchanges move against this country, there is a tendency for gold to leave the Bank of England. Whenever bills on London become so cheap that it is profitable to remit them for payment in gold, that metal will certainly be taken from us.

The course adopted by the Bank of England to turn adverse exchanges in our favour and protect the gold reserve, is to raise its rate of discount. This in turn pulls up the deposit rate and the market rate, and so acts upon the value of money that it will no longer be profitable to draw against us for gold. Further, as money flows (other things being equal) to the market where rates are highest, the Continental investment demand for London paper may be so great as to force the exchanges up to specie point, and thus the gold reserve may be replenished.

4. What are (a) direct exchanges, (b) indirect exchanges, and what is the main reason for differentiating exchange operations in these ways?

Answer

Direct exchanges are those conducted exclusively between two centres—*i.e.* where the transaction is based upon a particular quotation in one market and its counterpart at another.

Indirect exchanges are those the settlement of which involves recourse to other exchanges than the original.

(See Year 1908, Question 5.)

Indirect exchange operations are of importance in that a demand is created for bills drawn on outside countries for the purpose of settling transactions between two countries directly trading with each other. For example, there is a universal demand for London paper for this purpose, which tends to keep the exchanges favourable to London even when (to all appearance) there may be an adverse balance of trade.

YEAR 1908

1. What are the Foreign Exchanges? Narrate fully the theory of the Exchanges.

Answer

The term "Foreign Exchanges" means variously:—

- (a) The system by which the mutual indebtedness of nations is settled, and capital is transferred from one country to another; or
- (b) The principles upon which foreign bills of exchange are created and dealt in; or

- (c) Simply the "rates of exchange" —*i.e.* the prices at which bills drawn in one currency are exchanged (bought and sold) expressed in terms of a different currency.

The Exchanges are based on the theory that where there is mutual indebtedness between parties in different countries, each transaction does not require to be settled individually by the exchange of money, but by a system of "exchange" of indebtedness much inconvenience may be saved.

For example, suppose A in France is debtor x to B in Britain, and C in Britain owes x to D in France. A might remit x in gold to B, and similarly C to D; or B could draw on A and D on C and hand their bills to a banker for collection. But, acting on the principle above stated, let D (the *foreign* creditor) draw on C, and sell his draft at a certain price or "rate" to A, who remits it in settlement of his indebtedness to B, the last mentioned collecting it from C, the drawee.

This illustrates simply how several accounts may be squared by means of one bill of exchange. Of course, where indebtedness is unequal, balances are extinguished by the transference of gold.

2. Explain (a) what Par of Exchange is and how it is estimated, (b) what is technically called a gold point and how it is determined. Quote the Par of Exchange between this country and the other countries of Europe.

Answer

(a) Mint Par may be briefly defined as a conversion of the standard coinage of one country into terms of the standard coinage of another (which uses the same metal as standard) having regard to the weight and fineness of the metal contained in each.

(For full explanation see Year 1906, Question 1.)

(b) A gold point is the rate of exchange yielded by buying gold in one country and selling it in another; in other words, the price realised by sending gold from one country to another, making allowance for charges of transit (freight, insurance, etc.). As these charges vary with circumstances, gold points cannot be exactly determined.

Gold points are of importance in Exchanges because, under ordinary conditions, they mark the highest point to which an Exchange may rise, and the lowest to which it may fall. When it becomes more profitable to buy and sell gold than to exchange bills, gold movements take place. For example, if in Paris the price of London paper rises to such a point that it is more profitable to send gold to London than to buy a bill, gold will certainly be sent; if, on the other hand, the Exchange falls to such a point that it pays better to take gold from

London than to draw and sell a bill, gold will leave London for Paris. The two leading European Pars are :—

Par with France. 25·2215 francs = £1.

Do. Germany. 20·43 reichsmark = £1.

3. What are the chief difficulties which arise in trading between countries having a gold standard and countries having a silver standard ? How are these difficulties overcome ?

Answer

As there can be no fixed relationship between the value of gold and that of silver (their respective values depending upon demand and supply) it follows that the gold price of silver, and *vice versa*, constantly fluctuate. It is, therefore, impossible to compare with certainty prices expressed in gold with those expressed in silver ; and it is this element of uncertainty that presents the chief difficulty in trade between gold standard and silver standard markets, there being always the risk of one of the parties suffering loss—receiving a payment below his expectation, or having to pay a higher price than anticipated.

In practice, this difficulty is overcome (to some extent) by fixing the bargain in terms of the currency of one of the parties to a transaction. If it is the creditor's, the debtor may find himself, when the time comes for settlement, in the position of having to pay *more* of his own currency—as compared with the former equivalent—to discharge his indebtedness, or *less*, according as the relative value of gold and silver has undergone a change. On the other hand, if the price has been fixed in terms of the debtor's currency, the creditor may receive more, or he may have to accept less than he had calculated upon when the contract was entered into.

The Mexican and Chinese are the leading silver exchanges, and British merchants trade in terms of sterling. The speculative part of the transaction is thus cast upon the foreigner.

4. What effect had the recent gold crisis in the United States on the European Exchanges ; what were the steps taken in the principal European countries for self-protection, and what was the result of such action on the Exchanges ?

Answer

It is a matter for some concern when gold leaves Europe for America, because there is great difficulty in getting it back ; and the interests of the various European countries in these circumstances are mutual.

When such withdrawal of gold takes place, it becomes the object of Europe to turn the exchanges against America, thus making the export of gold from this side an unprofitable operation. This is effected by the European banks raising their rates of discount. If other things are equal, the exchanges are favourable to the countries where rates are highest, and

there is a tendency for gold to remain in, or be attracted to such countries.

5. What is Arbitrage and how does it affect the Exchanges ?

Answer

By " Arbitrage " in Exchange is meant :—

(a) The practice of operating, so as to make a profit, by using the differences between the " rates " of a particular exchange ruling at the same time in different markets.

Thus, supposing the London-Paris Exchange is quoted as 25·30 in Paris, and 25·20 in London, an operator in London might wire his Paris correspondent to draw upon him, say for £1000, which the correspondent could sell for Fcs. 25,300, the Londoner at the same time drawing upon his Paris correspondent for the equivalent of £1000 in London—viz. Fcs. 25,200. The operation in this instance would result in a gain of 100 francs.

Operations on similar lines might be conducted over a series of three or four exchanges.

(b) The remitting of money abroad more profitably by means of a Bill of Exchange drawn not upon the country to which it is remitted, but upon a third centre. For example, the London Exchange may be against Paris, the Berlin Exchange favourable to Paris, and the London Exchange favourable to Berlin ; in which case it may pay the Paris debtor to buy, and remit to London, bills on Berlin.

Arbitrage operations have the effect of levelling differences between the quotation of an exchange in one market and its counterpart in others. It further prevents sudden fluctuations, and causes allied exchanges to rise and fall together.

YEAR 1909

(Answer any *five* questions)

1. Explain the meaning of Mint Par of Exchange.

Answer

Mint Par of Exchange is a comparison between the currencies of two countries which use the same standard of value : being the currency unit of one expressed in terms of the currency of the other.

(For full explanation refer to Year 1906, Question 1, and Year 1908, Question 2.)

2. Enumerate the different sources from which Great Britain becomes (a) a creditor of, and (b) a debtor to other countries.

Answer

(a) Great Britain becomes a creditor of other countries in respect of :

- (1) Its exports of material commodities.
- (2) Freights earned by British ships, and commissions and brokerages earned by British traders.
- (3) Interest on money lent and invested in other countries, repayments of such loans, and savings, donations, and capital remitted to this country.
(Nos. (2) and (3) account for by far the greater part of the annual excess of our visible imports over visible exports.)
- (4) Expenses of tourists, etc. in this country.
- (5) Arbitrage operations.

(b) Great Britain becomes a debtor to other countries in respect of :

- (1) Material imports.
- (2) Interest paid on foreign capital invested here, and (temporarily) loans contracted here by other countries.
- (3) Expenses of British travellers and Government Representatives abroad.
- (4) Arbitrage operations.

3. What is the "long rate of exchange," and in ordinary circumstances what points are taken into account in arriving at the rate ?

Answer

The "long rate" of exchange is the price of a bill which is payable after a certain term of currency—in the majority of cases quotations apply to bills which have three months to run from the date of sale to maturity.

In arriving at the long rate, regard is had to the unexpired period of currency, the foreign discount rate, the foreign bill stamp, and the risk connected with the transaction. Long rate therefore is based upon sight rate (which is fixed by demand *v.* supply) rising and falling with it, and differing from it according to the rate of discount ruling in the country upon which the bill is drawn, and the state of credit.

The long rate with Paris, from the London point of view, is equal to sight rate, plus interest for unexpired period of currency at Paris discount rate, plus foreign bill stamp, plus consideration for risk.

From the Paris point of view, of course (the quotation being in terms of French currency) *less* will be given for a bill with

three months to run than for a draft at sight, and the above items will fall to be *deducted* from the sight rate.

4. What is a gold point? Explain whether it is possible to fix a gold point with exactness.

Answer

See Year 1908, Question 2. (b).

5. State the causes which have contributed towards making London the principal settling place of international indebtedness.

Answer

London has become the principal settling place of the world chiefly because it is the financial centre of an Empire whose commerce has had a long start over that of other countries.

Many of the causes which in the past contributed to the pre-eminence of London are still operative—*e.g.* the natural characteristics of Britons; the geographical situation of this island, and its freedom from invasion; our position as the world's shippers, and our close relations with all foreign trading centres; and the hospitality extended to foreigners—*e.g.* the Jews, who have from early times been associated with monetary transactions.

The position is maintained also in virtue of the stability of our currency system; because there is a free market for gold in London; because of the high credit which we enjoy; and by reason of the facilities afforded to those who deserve credit.

6. The London cheque rate was quoted in Paris on 7th January last at $25\cdot10\frac{1}{2}$ and on 14th January at $25\cdot13\frac{1}{4}$. Show by calculation which of these quotations was more favourable to a French seller of a London cheque for £550, and to what extent?

Answer

Obviously the second quotation is the better for the seller, because he gets $25\cdot13\frac{1}{4}$ francs for each £1 sterling in the cheque, whereas in the other case he would get only $25\cdot10\frac{1}{2}$ francs.

For each £1 the difference is $25\cdot13\frac{1}{4} - 25\cdot10\frac{1}{2} = \cdot02\frac{3}{4}$ francs.

$$\begin{aligned}\therefore \text{difference for } £550 &= \cdot02\frac{3}{4} \times 550 \\ &= \underline{\underline{15\cdot125 \text{ francs}}}.\end{aligned}$$

Or

$$\begin{array}{rcll}£550 @ 25\cdot13\frac{1}{4} \text{ francs per } £1 & = & 13,822\cdot875 \text{ francs} \\ \text{,, } 25\cdot10\frac{1}{2} \text{ ,, ,,} & = & 13,807\cdot75 \\ & & \underline{\underline{15\cdot125 \text{ francs}}}\end{array}$$

YEAR 1910

(Answer any *five* questions)

1. Explain the nature of " Arbitrage " operations.

Answer

(For full explanation see Year 1908, Question 5.)

2. When the market price of Foreign Bills rises above par what position of foreign trade does the circumstance signify, and what does the premium carried by the Bills represent ?

Answer

When the exchanges, say, between London and other centres, rise above par, the circumstance denotes that the balance of indebtedness is in favour of this country: the force of the foreign demand for bills drawn upon London being greater than that of the supply of such bills, and the force of the supply of foreign bills in the London market being greater than the demand. The " premium " (or excess of the price above par) represents the extent of this force.

This condition of affairs may arise, in the case of the gold exchanges, from two distinct sources :—

(a) The relative interest on money in this country may be high as compared with that in other countries, creating an *investment* demand for London paper on the part of foreign bankers and a *remittance* demand for the transfer of capital attracted to London by the high rate. For the latter purpose, also, drafts on Continental bankers will be sold in London.

(b) The relative indebtedness of Britain to other countries may be in our favour—*i.e.* the London demand for bills on foreign centres to pay for our imports may be outweighed by the supply of paper drawn on foreigners offered in the London market; and the supply of London acceptances in other countries may not suffice to meet the demand abroad for payment of our exports, interest and freight due to us, etc. In addition, bills on London are universally in demand for the settlement of mutual indebtedness of *other* nations, and this may have the effect of turning certain exchanges in our favour.

In the case of the silver and paper exchanges a third element enters—*viz.* the relationship existing between gold and the other currency medium. The " premium " may represent the extent of the depreciation of the silver or paper currency as compared with gold.

3. What are "tel quel" rates of exchange?

Answer

In general, the prices quoted in the Course of Exchange are the "long rates"—*i.e.* the prices applicable to bills which, on the date of sale, have still three months to run before maturity. As in most cases bills either exceed or fall short of this period, each transaction usually involves a charge from, or an allowance to, the buyer, for interest. This *net* price is the "tel quel" rate. "Tel quel" means "such as it is," and a "tel quel" rate, therefore, is a price based on the "long rate" but adjusted in respect of the exact unexpired term of currency of the bill.

"Tel quel" rates are met with most frequently in connection with bills drawn here in sterling, on foreign countries, and made payable "at exchange as per endorsement" (or London selling price).

4. When a foreign loan is subscribed for in this country what are the immediate and permanent effects upon the Exchanges?

Answer

(a) The immediate effect of the raising of a foreign loan in this country is to set the exchanges moving against us, because of the demand in London for remittance bills on foreign countries, and because of the supply in other centres of bills on London drawn against the loan subscription.

The contracting of a foreign loan may be looked upon—so far as the effect upon the exchanges of the lending country is concerned—as equivalent to an import of securities which must be paid for at once. Bills of Exchange will be resorted to as the cheapest means of remittance available, until it becomes more profitable to deal in gold.

(b) After the granting of the loan has been settled for, the periodical receipts of interest on it, as well as the repayment of such loans, operate on the exchanges in the contrary direction, inclining them in our favour: as if we were exporting coupons and bonds which fall to be paid for by the foreigner.

5. Explain the meaning of the following quotations which are taken from the London Course of Exchange of 20th January last, as reported in the daily newspapers:—

		Buyers.	Sellers.
Germany	3 months	20.64	20.68
Paris	short	25.16	25.20
Do.	3 months	25.37½	25.42½
New York	demand	4.87 ³ / ₁₆	⁷ / ₁₆
Do.	60 days	48 ⁵ / ₈	48½

Answer

Germany—3 months. The quotation means that offers at the

rate of £1 for 20.64 marks were made for Bank Bills on Germany, while £1 could buy 20.68 marks in the case of Trade Bills.

Paris—short. £1 for 25.16 francs was the price offered for Bills on Paris “on demand”; bills of not more than ten days’ currency were offered at 25.20 francs per £1.

Paris—3 months. £1 for 25.37½ francs was the price offered for Bank Bills of three months’ currency; Trade Bills were to be had at the rate of £1 for 25.42½ francs.

New York—demand. Bank Bills on New York payable on demand were in request at £1 for 4.87 $\frac{3}{16}$ dollars; 4.87 $\frac{7}{16}$ dollars could be bought for £1 in the case of Trade Bills.

New York—60 days. 48 $\frac{5}{8}$ pence per dollar was the offer for Bank Bills on New York having sixty days to run; 48½ pence per dollar was the price wanted for Trade Bills.

6. In what way does a rise of the Bank Rate affect the Foreign Exchanges?

Answer

In ordinary circumstances, a rise in the rate of discount in any country directs the exchanges in favour of that country. The Bank of England, by reason of its being the most powerful lender in the London market, is able to act upon the relative value of money, and market rate and deposit rate as a rule follow Bank Rate.

To stop an export of gold, or to attract the precious metal to London, the remedy is for the Bank of England to raise its rate of discount. If market rate on occasion fails to follow, the bank may, by selling consols for cash and buying for the account, deplete the resources of the other banks, reduce the funds available for the market, and so “drive the Market to the Bank,” or it may borrow direct from the other banks, with the same result—an advance in the market rate. This has the effect of moving the exchanges in our favour, for two reasons:

- (a) It is an axiom in Economics that a high rate of interest attracts capital. When, therefore, we offer greater inducements to foreign investors than they find at home, foreign capital flows to London. The supply of drafts on this country available for remittance, in these circumstances, falls short of the demand, and some portion of the stream of capital may have to take the form of gold. At the same time, foreign banks doing business in London want to take advantage of the high rates of interest, and employ more capital in this country. This supply is obtained by drafts on Continental banks sold in the London market. Thus, while London acceptances tend to become scarce abroad, bills on foreign countries are

plentiful in London, and the relative value of the sovereign to other currencies is enhanced.

- (b) While London bankers confine their discounting operations mainly to home paper, foreign bankers invest largely in London acceptances. Other things being equal (*e.g.* when credit is good) Continental bankers give preference to bills on that country where discount rates are highest, because of the better return they yield.

The buyer pays for the bill at exchange rate, *less* discount at the rate ruling in the country upon which the bill is drawn. Hence, the higher the London rate of discount the more of his own currency the foreign buyer of a London acceptance can afford to give; the greater the demand for London paper abroad; and, therefore, the higher the London exchange rates.

PRINCIPLES OF SCOTS LAW AND CONVEYANCING

THE most useful text-book on this subject (for the purpose of Examination) is Lorimer's "Handbook of the Law of Scotland." This work covers a vast field in an interesting and concise manner, affording a good introduction to the subject. As will be seen from the papers that have been set, it is not necessary to master the whole book, and the chapters which will be found of most service are those relating to Guardianship, Succession, Trusts, Contracts, Prescription, Pledge and Lien, Cautionary Obligations, and Securities for Debt.

It appears, however, that questions which might be expected to be met with under Mercantile Law come also within the scope of the present subject; and Lorimer, therefore, must be supplemented by either of the following: (1) Wallace & M'Neil, Parts I., III., and V. (General Relation between Banker and Customer, etc., Securities for Advances, and Diligence), or (2) Robertson's "Handbook," chaps. i., ii., vi., and vii.-xiv. inclusive (Execution of Deeds, Succession, Securities, Diligence, etc.).

In reading these and other Law Books it must be borne in mind that the law relating to certain mercantile practices has of recent years undergone revision. In particular, attention should be paid to the provisions of the Limited Partnerships Act, 1907, and the Companies Consolidation Act, 1908. (The text of any Act may be obtained through Messrs Oliver & Boyd.)

YEAR 1906

NOTE.—*In answering these Questions, Candidates should confine themselves to what is asked. No credit will be given for irrelevant matter.*

1. Define and give an illustration of each of the following :—
 - (a) *Beneficium ordinis.*
 - (b) *Delectus personae.*
 - (c) *Homologation.*
 - (d) *Rei interventus.*

Answer

By *Beneficium ordinis* is meant "the benefit of discussion"—*i.e.* the right which a cautioner had at Common Law of re-

quiring a creditor to discuss (or do diligence for repayment of his debt against) the principal debtor before the cautioner could be proceeded against. For example, on the bankruptcy of the principal debtor, the creditor had to constitute his debt against the estate, and exhaust his claim, before he could call upon the cautioners.

Under the Mercantile Law Amendment Act, 1856, a creditor may now (in the absence of express stipulation in the instrument of caution to the contrary) proceed against the cautioner, or the principal debtor, or against *both* of them, to operate payment of the debt.

(b) *Delectus personae*—the choice of a person—is a right possessed by parties to certain contracts whereby the substitution or introduction of other parties is excluded—*e.g.* partners choose to enter into partnership by reason of their confidence in each other, and it is not competent for any, without the consent of *all*, to change the *personnel* of the firm. Similarly, a master cannot assign his servant to another, nor can a servant elect to provide a substitute. A lease of heritable subjects is not assignable without the consent of the landlord.

(c) *Homologation*—an act of a party to an obligation, or his representative, whereby an engagement in itself defective or informal is dealt with as binding. Homologation implies not only assent to the engagement, but also full knowledge of its extent and consequences.

Such assent to, or approval of a deed, inferred from circumstances, excludes objections which would otherwise be competent—*e.g.* a deed imperfectly or informally executed may be validated by recognition in subsequent probative writings by the granter.

(d) *Rei interventus* is an act on the part of a person in whose favour an obligation is granted, done on the faith of the agreement, and permitted by the person granting the obligation, whereby an alteration takes place in the circumstances of the parties; for instance, a transaction taking place between parties in consequence and on the faith of a contract.

Proof of *rei interventus* may validate a contract which is defective in respect of legal formalities.

2. What legal rights are enforceable against the heritable estate and the moveable estate respectively of a person deceased, under testacy and under intestacy?

Answer

(1) *Heritable Estate.*

(a) Under testacy are enforceable the rights of *terce* (accruing to the widow) and *courtesy* (accruing to the husband).

(b) Under intestacy are enforceable the above rights, and

the legal rights of heirs—the succession being founded on the principles of preference of males and privilege of primogeniture.

(2) *Moveable Estate.*

(a) Under testacy the rights which cannot be defeated by testament are *jus relictæ* (widow's right), *jus relicti* (widower's right), and *legitim* (children's right).

(b) Under intestate succession are enforceable (in addition to the above) against the "dead's part"—which alone may be bequeathed—the legal rights of heirs: preference of males and privilege of primogeniture not being recognised.

3. What is *legitim*; to whom is it due, and how may it be excluded? To what extent does the right of representation apply to *legitim*?

Answer

Legitim, or "bairns' part," is that part of the moveable estate of a husband or a wife which falls, on the death of either, to the children. If there be a surviving parent it amounts to one-third of the moveable estate, otherwise, to one-half.

The right of representation (*i.e.* the right of the descendants of a deceased child to that child's share) now applicable, both in heritable and moveable succession, does not apply to *legitim*.

4. Where decree has been obtained against a debtor, in what form will diligence be competent and effective against:—

- (a) Heritable property belonging to the debtor.
- (b) Goods in possession of the debtor.
- (c) Monies owing to the debtor by other persons.
- (d) Goods held by third parties to the order of the debtor.

Answer

- (a) Inhibition, followed by Adjudication.
- (b) Poinding.
- (c) Arrestment, completed by an Action of Furthcoming.
- (d) Same as (c)

5. A customer, who subsequently became bankrupt, had deposited with his bankers the following, along with letter of pledge undertaking to grant any further conveyance if and when required. State to what extent these are available as security for advances, giving reasons for your answers:—

- (a) Title deeds of dwelling-house.
- (b) Bearer bonds.
- (c) Insurance policies on the customer's own life, taken for behoof of his wife and children.
- (d) Certificates of shares registered in the customer's name.

- (e) Several chests containing valuable silver plate and other moveable effects.

Answer

(a) The deposit of title deeds of property situate in Scotland does not constitute valid security, and they would fall to the trustee in bankruptcy.

(b) Bearer bonds are negotiable instruments, transferable by delivery, and are therefore the subjects of pledge. The accompanying letter would determine the extent to which they were available as security; if the letter contained no express power to sell, the authority of the Court to do so would be necessary.

(c) Under the Married Women's Policies of Assurance (Scotland) Act, 1880, such policies are non-assignable, and the bank could not hold them in security.

(d) The registered holder is deemed to be the owner of the shares, and—the bank's title not being complete—the certificates could not be retained as against the trustee.

(e) Pledge of corporeal moveables, coupled with delivery, confers a valid title to them, and the goods could therefore be made available as security.

YEAR 1907

NOTE.—In answering these Questions, Candidates should confine themselves to what is asked. No credit will be given for irrelevant matter.

1. Who are entitled to be executors-dative, and in what order are they preferred?

Answer

When no executor has been nominated in the testament, the following are entitled to be executors-dative—preferred in the order given :—

- (a) The universal legatee (including trustees).
- (b) The next-of-kin.
- (c) Children or descendants of any predeceased next-of-kin.
- (d) The widow.
- (e) A creditor, to extent of a debt which has been constituted.
- (f) A legatee.
- (g) A judicial factor.

2. Mention any rights competent to children, and to widows, which cannot be defeated by testament. To what extent is the property and estate of the deceased affected thereby?

Answer

Legitim is the children's right to a portion of the moveable estate (accruing on the death of a parent) which cannot be defeated by testament. If there be a surviving parent it amounts to one-third; otherwise, to one-half.

Terce is a liferent which accrues to a widow in one-third of the *heritable* property in which her husband died infest as of fee.

Jus relictæ is the inalienable right of a widow to a portion of the *moveable* estate of her husband—amounting where there are children to one-third, and to one-half where there are none.

3. Under what conditions and to what extent are (a) the father, (b) the mother, entitled to succeed to the moveable estate of an intestate?

Answer

If the intestate has left either wife or child the parents of the intestate are debarred from succession.

Provided there is neither wife nor child:—

(a) If father only or father and mother are left, the father takes whole moveable estate.

If there are brothers or sisters of intestate, or issue of deceased brothers or sisters, the father takes one-half of the moveables.

(b) If intestate has left mother only, or mother and brothers or sisters, or issue of deceased brothers or sisters, mother takes one-third of the moveable estate.

4. Explain what is meant by summary diligence on a bill and mention briefly the various steps in the procedure to enforce payment.

Answer

Summary diligence is a privilege attached to bills of exchange whereby a holder whose title appears *ex facie* may, by an easy and rapid process of execution, enforce payment against drawer, acceptor, or endorsers. The necessity for citing the parties proceeded against, and proving the debt, is obviated.

(a) In order to preserve the right of summary diligence, the bill must be in order as regards all essentials, must have been duly presented and duly noted or protested for non-acceptance or non-payment, and notice of dishonour duly given.

(b) The instrument of protest granted by the notary must be registered—within six months after the date of the bill in the case of non-acceptance, and six months after the date of maturity in the case of non-payment. The protest contains a copy of the bill, and a narrative of the circumstances connected with its presentation and dishonour, along with a formal protest against non-acceptance or non-payment. Registration may be in the

Books of the Sheriff Court having jurisdiction over the parties proceeded against, or in the Books of the Council and Session.

(c) An extract of the registered protest is then issued, which contains a legal warrant to charge the parties against whom diligence is being done for payment of the bill within six days if they reside in Scotland (other than Orkney and Shetland) and within fourteen days if resident in Orkney or Shetland or furth of Scotland. When such parties reside furth of Scotland, or (being parties to the same bill) in different Sheriffdoms, extract can be obtained only from the Court of Session.

(d) The charge to pay in terms of the warrant is delivered to the debtor by an officer of the Court. Failing payment before the expiry of the days of charge, the effects of the debtor may be made available for payment of the sum due and expenses, either by pointing and sale by order of the Court, or by arrestment followed by an action of furthcoming.

5. What are the rights of a husband in his wife's property in the case of a marriage contracted in 1900?

Answer

In the absence of special contract, the rights of the respective parties are determined by the Married Women's Property (Scot.) Acts, 1877 and 1881, which provide, *inter alia* :—

- (a) That money received by the wife in the shape of wages, or gained as the reward of her own skill, are outwith her husband's *jus mariti* and right of administration.
- (b) The same applies to the whole moveable estate of the wife acquired before or during marriage; but she cannot assign the prospective income thereof, nor can she dispose of it without her husband's consent.
- (c) *Jus mariti* and right of administration are also excluded from the rents and produce of her heritable estate situate in Scotland.
- (d) In succession, the husband's right is the same as the wife's in a corresponding case—*i.e.* to one-half of the moveable estate if there are no children, and to one-third if there are.

In addition the right of "courtesy" accrues to the husband—*i.e.* he is entitled, if he has been the father of a child who was heir to the mother, to the liferent of the whole of the heritage to which she has succeeded.

YEAR 1908

NOTE.—In answering these Questions, Candidates should confine themselves to what is asked. No credit will be given for irrelevant matter.

1. What is the object of the Testing Clause to a Deed, and what are its essentials? What form of Testing Clause is requisite in the case of a Deed executed by a Company registered under the Companies Acts?

Answer

The object of the Testing Clause to a Deed is to narrate the particulars relative to its execution. The testing clause comes at the end, and usually sets forth :—

- (a) The name and designation of the writer, or the person who has filled in the blanks in a printed form (not absolutely necessary).
- (b) The place and date of subscription (not essential, unless effect depends upon date).
- (c) The names and designations of the witnesses (designations not necessary if these are appended to their signatures).
- (d) Any alteration, addition, or vitiation appearing on the Deed as originally written is declared to have been made before subscription.

In the case of a Deed executed by a Registered Company, the Testing Clause is in the same form. The Deed should be signed according to the terms of its Memorandum and Articles of Association; or, in the absence of express provision, by two of the Ordinary Directors and the Secretary, and sealed with the common seal of the Company, such execution being valid although not attested by witnesses.

2. Mention any obligations which require to be constituted in writing. When a written contract is essential, how may the want of this be overcome?

Answer

The whole class of cautionary obligations requires to be constituted in writing, and will be construed strictly according to the terms of the deeds.

Deeds in themselves invalid because wanting some of the legal solemnities may yet be validated by "homologation" or *rei interventus*.

3. State the various modes whereby a valid security may be granted in favour of a bank, over heritable property in Scotland, for sums advanced and to be advanced to a customer. How may the security thereby conferred be restricted?

Answer

(a) By a Bond and Disposition in Security. This deed is in the form of a personal bond to which is joined a conveyance of heritable property, according to statutory form. This mode may be adopted when the advance is made instantly and in one sum.

(b) By a Bond of Credit and Disposition in Security. In this

case the security subjects may be made available for sums advanced or to be advanced within the limit specified in the deed.

(c) Disposition *ex facie* Absolute. By this deed the subjects are conveyed absolutely to the creditor, and advances need be limited only by his own prudence. It is accompanied by a back bond or back letter, specifying the conditions entitling the debtor to reconveyance of the property.

In all three cases the deeds should be recorded in the Register of Sasines; but in the third case the back bond should not—otherwise the security will be rendered unavailable for advances made subsequently.

Any restriction mentioned in the bond will be given effect to. Intimation of a subsequent bond having been granted restricts the security to advances made prior to such intimation.

4. What steps are necessary in order to obtain a valid security over the following?—

Bills of Lading.

Iron Warrants.

Debentures registered in name of Owner.

Bearer Bonds.

Answer

(a) Possession of all parts of the Bill of Lading (duly endorsed) should be obtained, or their whereabouts known. It is usual to hold a letter of hypothecation relating the Bill of Lading to the advance, giving the bank power of sale.

(b) Pledge of Iron Warrants, duly endorsed, operates as an assignment of the goods represented, provided the parties issuing such Warrants have power (under Act of Parliament) to confer negotiability to their Warrants; otherwise, intimation to them must be made.

(c) The Debentures should be transferred to the bank's name, the title being completed by registration in the books of the issuing company.

(d) Delivery of Bearer Bonds constitutes a valid security. It is usual, however, for banks to take with them a letter of hypothecation, stating the conditions upon which they are held, and conferring power upon the bank to sell if the conditions are not adhered to.

5. What are (a) Corporeal Moveables, (b) Incorporeal Moveables? Under what circumstances will the unpaid seller of goods lose his lien or right of retention thereon?

Answer

(a) Corporeal Moveables are those the property in which passes by actual or constructive delivery of the goods themselves. Such moveables have concrete existence, and are capable of being *moved*—e.g. furniture, ships, horses, etc.

(b) Incorporeal Moveables have no concrete existence, and

are not capable of delivery in substance, but may be transferred or assigned. Such are stocks and shares, insurance policies, reversionary interests, debts, etc.

The unpaid seller of goods has a lien or right of retention over them which he loses :

- (1) When he delivers the goods to a carrier, or other bailee or custodian, for the purpose of transmission to the buyer, without reserving the right of disposal of the goods.
- (2) When the buyer or his agent lawfully obtains possession of the goods.
- (3) By waiver of his lien or right of retention.

YEAR 1909

NOTE.—*In answering these Questions, Candidates should confine themselves to what is asked. No credit will be given for irrelevant matter.*

1. What is a Banker's lien? Upon what is it founded? Do the following subjects come under it?—

- (a) Bills lodged for (1) collection, (2) acceptance, (3) discount, (4) safe custody.
- (b) Mercantile document which is not transferred by delivery or endorsement.
- (c) Bonds payable to Bearer.
- (d) Bonds over heritable or moveable Estate.
- (e) Share Certificates.
- (f) Securities belonging to Clients deposited by a Stockbroker for a definite advance.

Answer

Bankers' lien is the right which a banker has to hold (in Scotland) all negotiable instruments belonging to a customer who has deposited them with the banker in his capacity of banker (not in any other capacity—*e.g.* as custodian) against a general balance on banking transactions due by the customer to the bank, unless there be an express contract to the contrary.

This right is founded on common law.

(a) (1) Yes. (2) Yes. (3) No, if discount refused. (4) Not if for safe custody only, but if for collection, and *incidentally* for safe custody, they will be subject to lien.

- (b) No.
- (c) Yes.
- (d) No.
- (e) No.

(f) Only in respect of such advance.

2. A's account with his Banker is overdrawn to the extent of £1000, for which security is required. A offers the names of two Sureties who are individually reported to be good for the amount, and an authorised Credit of £1000 is thereafter agreed to upon the security of a personal Bond for Cash Credit by the three parties. The Banker has not been informed whether A has said anything to the Sureties about the overdraft or the position of his affairs. What are the rules to be observed by the Banker in relation (a) to the Sureties previous to the Bond being signed, and (b) to the account after the Bond has been signed?

Answer

(a) The law on the subject is that sureties are presumed to have satisfied themselves regarding the position of affairs before lending their names, and it is no part of a banker's duty, *unsolicited*, to disclose the state of the customer's account and the application of the money.

(Cautioners can repudiate liability, however, if they prove a charge of fraud, or *undue* concealment on the part of the banker.)

(b) In these circumstances the banker should take his debtor's cheque for £1000, opening a new account and closing the old one.

The rules regulating cautionary obligations—particularly those relating to discharge of cautioners on account of wrongful acts of the banker—will fall to be observed.

3. What remedy is provided by the Partnership Act, 1890, to get over the difficulty which would be created by any one of the following events occurring during the existence of a partnership composed, say, of A, B, and C?—

(a) A becoming permanently insane.

(b) B becoming in some other way permanently incapable of performing his part of the partnership.

(c) C wilfully or persistently committing a breach of the partnership agreement.

(d) The business of the partnership being carried on at a loss.

Answer

The remedy provided by the above Act is that in cases (a), (b), and (c) any *other* partner, and in (d) *any* partner may make application to the Court, who may decree a dissolution of partnership.

4. A dies intestate, leaving a widow, a son and a daughter, and two children of a daughter who predeceased him. There is no heritage, and the moveable estate consists only of a sum of £80 in bank. It is not proposed to take out Confirma-

tion, and payment of the money is applied for. Is the son the legal representative to whom the money should be paid? If not, who are A's legal representatives? and what are their respective shares in the money? Would it make any difference if A is predeceased by his wife?

Answer

The son is not the sole legal representative of the deceased, and the money should not be paid to him. The intestate's legal representatives are the widow, son, daughter, and two representatives of deceased daughter. (If predeceased by wife—others mentioned are representatives.)

(a) Where widow survives :—

(1) Widow gets one-third as *jus relictæ*.

(2) Son and daughter get between them the third part of the estate, known as *legitim*; and in addition each one-third of the third part known as "dead's part"—*i.e.* the share of each is $\frac{1}{6} + \frac{1}{6} = \frac{5}{18}$ ths of the estate.

(3) The two representatives of the deceased daughter get between them their mother's portion of the estate—one-third of the "dead's part."—*i.e.* they each get $\frac{1}{2}$ of $\frac{1}{6} = \frac{1}{12}$ th of the estate.

(b) Where wife predeceased :—

(1) Son and daughter get between them the half of the estate, known as *legitim*, plus a third each of the half known as "dead's part": *i.e.* they get $\frac{1}{4} + \frac{1}{8} = \frac{5}{12}$ ths each.

(2) The two representatives of the deceased daughter get between them her share—*viz.* one-third of "dead's part"—*i.e.* $\frac{1}{2}$ of $\frac{1}{6} = \frac{1}{12}$ th each.

NOTE.—The bank would take no cognisance of their respective rights; and, if payment of the money were applied for without production of Confirmation, it would probably be paid only on the discharge and indemnity of all the beneficiaries, coupled with an independent guarantee.

5. To what extent is it competent for the granter of any deed, ordinary or privileged, or for the witnesses to it, to sign by initials or by mark?

Answer

The granter of a deed may validly sign it by initials only if such be his usual mode of subscription, and it be proved that the initials are his. It is not competent for witnesses to sign by initials.

A deed subscribed by the granter's mark is null and void; the proper course is to have it executed on his behalf by a Notary Public or Justice of the Peace, before two witnesses. Witnesses cannot validly sign by mark.

YEAR 1910

1. Mention three classes of persons who are either wholly or partially incapable of contracting, and show how the law supplements their deficiency in that respect. On what grounds may a Contract be set aside ?

Answer

Five classes may be enumerated :—

(1) *Lunatics*.—If a person is proved to be incapable of managing his own affairs, his nearest male *agnate* (*i.e.* his nearest kinsman by the father's side) is entitled to his guardianship, failing whom a tutor dative or curator *bonis* is appointed by the Court of Session.

(2) *Interdicted Persons*.—A person not cognosced as an idiot or a madman may be interdicted ; either voluntarily (when he nominates his own interdictors) or judicially, by his friends (when a curator *bonis* is appointed). Interdict applies only to heritage.

(3) *Pupils* (males under fourteen years of age and females under twelve). Contracts are legally entered into on behalf of a pupil by his tutor, who may be a tutor *testamentar* (nominated by the parents), a tutor-at-law (nearest male *agnate* to the pupil), or tutor dative (appointed by the Court of Session). Failing these, a factor *loco tutoris* may be appointed.

(4) *Minors* (persons between the ages of pupillarity as above and majority—twenty-one years).—A minor acts with consent of his curator, however appointed, or curator *bonis*.

(NOTE.—The father (failing whom, the mother) is tutor and curator *ipso jure*.)

(5) *Married Women*.—A married woman is excluded from entering into certain contracts—such as the granting of personal obligations and bills so far as these are unconnected with the management of her own estate. She may, if her husband's *jus relict*i and right of administration are excluded, dispose of her *heritable* estate, but otherwise her husband's consent is necessary to validate deeds alienating or assigning her separate estate.

(a) Contracts entered into by a pupil are null, except when they are beneficial to him. Obligations, contracted by minors may be set aside within four years on proof of lesion. Cautionary obligations, etc. granted by a married woman (if not connected with the administration of her own estate) may be declared void, provided she, or those in her right, plead her incapacity.

(b) A contract induced by fraud is voidable at the option of the person defrauded. Force, fear, and drunkenness are

grounds for the rescission of a contract, and essential error or legal informality may vitiate a deed.

(c) Under Act 1621, c. 18, all alienations of his estate by an insolvent to a conjunct or confident person, without onerous consideration, may be declared null and void ; and under Act 1696, c. 5, all assignations or preferences granted within sixty days before bankruptcy, in favour of creditors to the exclusion of other creditors, may be reduced.

2. State one thing that is essential to the constitution of a cautionary obligation, and explain the law as to cautionary obligations granted by the following persons, with particular reference to their capacity to enter into such for the debts of third parties :—

(a) Directors of a Limited Company who seek to bind the Company.

(b) A Partner who seeks to bind his Firm.

(c) An Agent or Manager who seeks to bind his Principal.

Answer

What is probably meant is that there must be a principal debtor ; or that a cautionary obligation must be in writing.

(a) A Limited Company cannot become bound as cautioner unless express power to do so is conferred by its Memorandum and Articles of Association.

(b) A partner can bind his firm, by signing the firm's name, *only* if it can be shown that the granting of cautionary obligations is necessary and incidental to the conduct of the firm's business, or provided for in the contract of co-partnery. Generally, in order to bind a firm it is necessary that one partner sign the firm's name, and that all the partners sign individually in addition.

(c) An agent or manager cannot effectually bind his principal in this way unless he has express authority to do so.

3. Explain what you understand by (a) *jus relictæ*, (b) *terce*, (c) *courtesy*, and (d) *ultimus hæres*.

Answer

Jus relictæ is the claim which a wife has against the moveable estate of her husband, emerging at his death. If children survive, it amounts to one-third ; if issue of predeceased children only or no representatives, one half.

(b) *Terce* is the liferent accruing to the widow in one-third of the heritable property in which the husband died infeft as of fee (not in trust).

(c) *Courtesy* is the liferent accruing to the husband on the death of his wife, extending to the whole of the heritable property in which she died infeft, and to which she had succeeded—not to “conquest” (heritage acquired by donation,

purchase, or other singular title). The right to courtesy does not emerge unless there has been born of the marriage a living child who was the mother's heir.

(d) *Ultimus haeres*. The Crown, as "last heir," succeeds to the estate of a person who dies intestate leaving no legal representative.

4. What is necessary to be done in order to obtain a valid security over a Policy of Life Insurance? Can a Policy of Assurance effected by a married man on his own life, and expressed upon the face of it to be for the benefit of his wife, or of his children, or of his wife and children, be made the subject of a valid security? Give reason.

Answer

In order to obtain a valid security over a Life Policy it is necessary that the Policy be assigned to the creditor, and the assignation intimated to the Insurance Company. Assignations are preferred in order of intimation, and in Scotland an unintimated assignation forms no security, and may be defeated by arrestment or bankruptcy. On payment of the statutory fee of five shillings, the Insurance Company is bound to acknowledge the intimation.

It is provided by the Married Women's Policies of Assurance (Scot.) Act, 1880, that Policies such as those described cannot be assigned in security.

5. A holds a Decree against B for a certain sum, and uses an arrestment in the hands of his Bankers for the amount. At the moment the Schedule of Arrestment is served the position of B with his Bankers is as follows—viz.

- (a) There is a balance at credit of a current account in name of B & Company, of which B is a partner along with C.
- (b) There is a sum on Deposit Receipt in name of B and D, payable to either, or survivor.
- (c) There is a sum on Deposit Receipt in name of E for behoof of B.
- (d) There is an acceptance by F to B in their hands for collection.
- (e) There are shares of a Limited Company in the names of the Bank's nominees, to whom they were transferred by B as a security for an advance to himself—the values of the shares being more than the amount of the advance.

What does the arrestment attach? Do the dividends on the shares come under it?

Answer

(a) Not attached.

(b) It has not been decided whether any part of money thus

lodged is attached ; and the bank would not be in safety to pay the receipt until the arrestment was withdrawn. If payment be insisted upon, the bank should raise an action of multiplepoinding, and obtain the Court's decision.

(c) Not attached in the banker's hands.

(d) Not attached.

(e) Attached for the amount of the value of the shares in excess of the advance.

The dividends are not attached.

LAW OF BANKRUPTCY

As will be seen from a careful perusal of the papers set in former years, the scope of this subject is wide, and the candidate to be successful must come forward well prepared.

Special attention should be given to the study of procedure. For instance, in Sequestration the student should be familiar with the various steps, from the date when sequestration is awarded till the estate is finally exhausted, and the trustee discharged. Further, the rules regarding voting and ranking must be clearly understood. It should be borne in mind that as regards voting, the creditor's right is limited to his actual interest in the bankrupt's estate; thus, if he holds security for the full amount of his debt, from the debtor, obviously, he has no interest in the management, and consequently has no right of voting. Voting is the method adopted to ascertain the views of the general body of creditors with regard to questions incidental to the management and realisation of the estate.

Ranking, on the other hand, is the declaring of his debt on the part of the creditor, with a view to drawing a dividend; and the trustee's adjudication thereof.

The different methods of winding up estates, both by judicial and extra-judicial processes must be studied, as well as the Acts relating to the reduction of preferences.

The Council, recognising that the subject is one which does not come within the daily round of most clerks, have considerably fixed the minimum percentage at 40, but the subject should not be treated lightly on that account, and to gain even the requisite marks a careful course of reading must be undertaken.

The books recommended by the Council, bearing on the subject, are: Goudy on Bankruptcy, Lorimer's "Handbook of the Law of Scotland," Vary Campbell's "Principles of Mercantile Law," Wallace and M'Neil's "Banking Law," and Robertson's "Handbook of Bankers' Law."

Of course it is not meant that all these should be studied: some of them may be dispensed with altogether; for instance Goudy, though the leading authority on the subject, is somewhat exhaustive for the requirements of this examination, and the student will not do badly if he confines his studies to the chapters treating on the subject in Wallace and M'Neil, varying his reading by, say, occasional divergences to Campbell or Robertson.

YEAR 1906

1. By whom and when is a trustee elected on a sequestrated estate? What is the qualification necessary to enable a person to take part in the election?

Answer

At the first meeting of creditors, they or their mandatories proceed to elect a trustee, or trustees in succession in case of non-acceptance, etc. of the office.

Before a creditor is permitted to vote he must produce his oath, taken before a Judge Ordinary, Magistrate, or Justice of the Peace, and also produce his vouchers proving the debt. Thus in the case of a bank claiming in respect of a debtor balance on a current account, they would produce their oath, together with a copy of the account, from the date when it was last acknowledged to be correct by the customer, and the relative vouchers.

2. In how many ways, naming them, may a company incorporated under the Companies Acts be wound up? Is sequestration under the Bankruptcy Act competent?

Answer

A company may be wound up either (1) voluntarily, or (2) compulsorily, by the Court.

Further, voluntary liquidation may be carried out either (a) without the intervention of the Court, or (b) subject to the supervision of the Court.

It is altogether incompetent to proceed to sequestrate a company's estate under the Bankruptcy Act; one of the foregoing methods must be employed.

3. Apart from any stipulation to the contrary in a Trust Deed agreed to by the creditors, what are the rules for the ranking of creditors on estates being wound up under a Trust Deed?

Answer

Where, in a Trust Deed, there are no stipulations as to ranking, the rules of common law apply. Thereunder a creditor is not called upon to deduct, from his claim, the value of any securities which he may hold. He may exhaust his security and thereafter rank for the original amount of the debt, to the effect of securing 20s. in the £. He can also rank for the full amount of his debt on the estates of the debtor and bankrupt co-obligants so as to operate payment in full. In most Trust Deeds a provision is inserted stating that the ranking shall be in accordance with the sequestration statutes.

4. A is a creditor on the sequestrated estates of B. B applies to the Court for his discharge, but A refuses to give his consent.

C, a friend of B's, and with his approval, agrees to pay to A £50, and in consideration thereof A signs the consent to B's discharge. What effect, if any, has this arrangement on the position of (a) B the bankrupt, and (b) A the creditor?

Answer

This case, which is one of collusion, has the following effects:—

- (a) With regard to the bankrupt who is cognisant of the collusive preference the Statute provides that he shall forfeit all right to discharge, and all benefits under the Act; and discharge, if granted, shall be annulled.
- (b) With regard to the creditor A: in the first place the agreement will be held to be null and void; and in the second place the creditor will have to forfeit and pay into Court, for the benefit of the other creditors, the amount of his debt; and in the third place he will be forced to pay into Court a further sum, equal to twice the amount of the gratuity or preference promised.

He will thus forfeit the amount of his debt (*N.B.*—not the amount of his ranking) plus £100, being twice the amount of the gratuity offered—viz. £50.

5. The Glasgow Bank hold for the indebtedness to them of A the joint and several guarantee of B, C, and D for £200. B becomes bankrupt and the bank rank on his estate and obtain a dividend of £50. A then becomes bankrupt at a time when, exclusive of the dividend received from B's estate, he is indebted to the bank in the sum of £150. The bank lodge a claim for ranking on A's estate for £150. The trustee calls upon the bank to value and deduct the obligation of C and D from the amount of their claim, and also to deduct the £50 received from B's estate. This the bank decline to do and claim to rank for £150. Are they right in this, and for what reason?

Answer

Provided the £50 received from the estate of B is lodged to the credit of a separate account, the bank cannot be compelled to deduct the amount from their claim. It is only securities, etc. forming part of the debtor's estate that fall to be deducted. Likewise they are quite correct in the attitude they adopt with regard to the obligations of C and D, and are therefore entitled to rank for £150.

With regard to the trustee's contention as to the valuation and deduction of the obligations of C and D, the grounds for this are found in the rule for voting, but even these only apply to cases where the obligations of persons bound with, but *liable*

in relief to the bankrupt are held. Thus, where the bank is claiming on the estate of a bankrupt cautioner, it would be called upon to value and deduct the obligation of the principal debtor. Such rule, however, only holds good in cases of voting, and does not apply, as in this case, to questions of ranking.

YEAR 1907

1. What is meant by Notour Bankruptcy, and what are its chief effects? How is it constituted (a) under the Debtors' Act of 1880, and (b) under a decree for £8?

Answer

By Notour Bankruptcy is meant the fact of a debtor's practical insolvency being made public. The chief effects of Notour Bankruptcy are :—

- (1) The *pari passu* ranking of all diligence used against the debtor within sixty days prior to the constitution of the same, or of all diligence used within four months thereafter.
- (2) The invalidating of all illegal preferences, and
- (3) The debtor's liability to sequestration.

(a) Under the Debtors' Act of 1880 Notour Bankruptcy shall be constituted by insolvency concurring with a duly executed charge for payment, followed by the expiry of the days of charge without payment, or, where a charge is not necessary or not competent, by insolvency concurring with an extracted decree for payment followed by the lapse of the days intervening prior to execution without payment having been made.

(b) The above Act deals only with cases in which, under its provisions, imprisonment was abolished, but as it was not competent prior to the passing of this Act to imprison a debtor for a less sum than £8, 6s. 8d. proof of Notour Bankruptcy for a sum of £8 falls to be constituted under Section 7 of the Bankruptcy (Scotland) Act of 1856.

Under this section Notour Bankruptcy shall be constituted :—

- (1) By Sequestration, or by the issuing of an Adjudication of Bankruptcy in England or Ireland.
- (2) By Insolvency, concurring (a) with a duly executed charge for payment, followed, where imprisonment is competent, by imprisonment or formal and regular apprehension of the debtor, or by his flight or absconding from diligence, or retreat to the sanctuary, or forcible defending of his person against diligence, or, where imprisonment is incompetent or impossible, by execution of an arrestment of any of the debtor's effects, not loosed or discharged for fifteen days, or by an execution of

poining of any of his moveables, or by decree of adjudication of any part of his heritable estate for payment or in security; or (b) with sale of any effects belonging to the debtor under a poining or under a sequestration for rent, or with his retiring to the sanctuary for twenty-four hours, or with his making application for the benefit of *Cessio Bonorum*.

2. A had a cash credit with a bank for £1000 under the usual Bond of Credit by himself with B and C as co-obligants. A conveyed in the Bond heritable property of the value of £200, while B transferred certain shares belonging to him of the value of £300. A, B, and C all became bankrupt at a time when there was due on the cash account the sum of £800. For what sums would the bank be entitled to rank and draw a dividend on the respective estates of A, B, and C? Give the reason for your answer.

Answer

When ranking on the estate of A the bank would value and deduct from the amount of the debtor balance the heritable property conveyed under the Bond, and rank for the balance. With regard to B, the bank would rank for £800, less the value of the shares held from B, and in the case of C, the bank would rank for the full amount of the debt. It must be borne in mind, however, that from the three estates the bank is not entitled to receive more than sufficient to pay their debt—that is, £800. Unlike claims for voting, the obligations of persons liable in relief to the bankrupt are not deducted when ranking, nor are securities other than those forming a part of the bankrupt's estate.

3. A kept his account with the Paisley Bank, and at his death he was due that bank on current account the sum of £500. His executors, in realising his estates, lodged the monies as received by them in an account in their names "as executors of A" with the Paisley Bank. A's estates turned out insolvent and were subsequently sequestrated at a time when there was standing at the credit of the executors £500. The bank claimed to retain this sum as against A's obligations to them, while the trustee on the estate claimed it for behoof of the general body of creditors. Who is entitled to the money and for what reason?

Answer

It was held in the case of *Alexander's Exec. v. Mackersy*, 1906, that where, at the date of his death, a customer had an overdrawn current account, and his executors, in the course of their intromissions with the estate, paid into an account opened in their names as executors, a sum practically equal to the

amount due by the deceased customer, the bank was entitled, in the event of sequestration of the deceased customer's estate, to compensate, or set-off, the one balance against the other, or to retain the sum at credit of the executors' account in satisfaction of their debt.

Hence the bank would be entitled to retain the £500.

4. A creditor on a sequestrated estate in his oath for voting has valued a security held by him over the estates of the bankrupt at a specified figure. The trustee, with the necessary consents, desires to take over the security. When and at what figure can he do so? Would there be any difference, and if so, what would be the difference were the valuation made with a view to ranking? What, if any, course is competent to a creditor in either of the above cases to prevent the trustee taking over the security at the figure specified in the oath?

Answer

The trustee may, with the necessary consents, within two months after the claim has been made use of in voting, call upon any creditor, holding a security over the bankrupt's estate, to assign such security to him on payment of the specified value, with 20 per cent. additional to such value. In a claim for ranking the trustee may call upon the creditor for an assignation of his security at the value put upon it in his oath (without the 20 per cent. additional as in the former case).

It is competent, however, for any creditor, before he has been called upon to convey his security to the trustee, to withdraw his claim and correct his valuation by a new oath.

5. What circumstances must co-exist to bring a transaction within the scope of the Act 1621, c. 18? Would any or all of the following transactions be struck at?

- (a) Six months before his sequestration a son gifts to his father heritable property belonging to him.
- (b) Four months before sequestration a bankrupt assigns to a creditor in security of a past-due debt a policy over his (the bankrupt's) life.
- (c) Thirty days before sequestration a bankrupt assigns to a creditor certain shares belonging to him in consideration of a present advance.
- (d) Twenty days before sequestration a bankrupt sells to his sister at the market price certain stock belonging to him.

Answer

To bring a transaction within the scope of this Act, which strikes at alienations to conjunct and confident persons, the following circumstances must co-exist:

The bankrupt must have been insolvent at the date of the alienation; the deed must have been granted gratuitously;

and the person receiving such gift must be proved to be either a conjunct person—that is, a relative—or a confident person—that is, one holding a position of trust under the debtor, or otherwise having business relations with him. Under this Act the above transactions would be dealt with as follows :—

- (a) If the son was insolvent at the date of the alienation the transaction would be open to reduction.
- (b) and (c) These transactions would not be struck at, as in neither case is there any mention of alienations to conjunct or confident persons.
- (d) As in this case there is an onerous consideration, the transaction would stand.

YEAR 1908

1. A Bank has a claim on the sequestrated estates of A B in respect of (a) a past-due bill drawn by A B upon and accepted by C D, and (b) a current bill drawn by E F upon and accepted by A B. The Bank hold in security an assignation by A B of a policy of assurance over his life and a guarantee by G H. In framing a claim in the sequestration, state what must be kept in view, and explain the difference, if any, between a claim for voting and one for ranking in the above circumstances.

Answer

In framing a claim for voting on the estate of A B the bank must, in respect of, (a), put a valuation on C D's obligation and deduct it from the amount : C D being liable in relief to A B ; (b) specify the amount of the bill under no deduction as regards E F's obligation, as he is not bound in relief to A B.

Further, they must value and deduct all securities which form part of the bankrupt's estate : thus they must place a value on the Life Policy and deduct the amount from their claim. Though not called upon to deduct other securities, they must, for the information of the trustee, specify them in their affidavit. They will thus acknowledge that they hold the guarantee of C D.

When ranking on the estate of A B the same procedure will be adopted, except that the valuation of persons liable in relief to the bankrupt do not require to be deducted. The bank will therefore rank for the full amount of the bills, less the value of the Life Policy, at the same time specifying in their claim the other security held, as well as the obligations of C D and E F though, of course, not deducting them.

2. What is meant by the term *Cessio Bonorum* ? By whom may a petition for *Cessio* be presented, and what is an essential to the presentation of the petition ?

Answer

By the term *Cessio Bonorum* is meant a yielding up by a debtor of all his effects for behoof of his creditors, which process constitutes a cheap and summary form of sequestration. The petition may be presented to the sheriff by the debtor himself, or by any of his creditors, praying that the debtor be ordered to execute a disposition *omnium bonorum*, and that a trustee be appointed to manage the estate. It is essential that the debtor be notour bankrupt.

3. Distinguish between bankruptcy and insolvency. Mention some of the effects of sequestration.

Answer

Insolvency takes place where a person is unable to meet his obligations as they fall due. He may quite well be worth 20s. in the £, and his insolvency due to his assets being in some unrealisable form. Bankruptcy, on the other hand, is insolvency made public, by a legal process.

Some of the effects of sequestration are :

The estate is taken out of the hands of the bankrupt and placed in the hands of a trustee, who attends to the realisation of it, the payment of dividends, and the discharge of the bankrupt. In addition the trustee examines the claims of all creditors, and applies for the reduction of any illegal preferences.

4. Is sequestration of the estates of a deceased person competent? If so, under what circumstances and at whose instance?

Answer

Sequestration of a deceased person's estate is competent, provided that at the time of his death the deceased person was subject to the jurisdiction of the Supreme Courts. The petition may be presented by a mandatory of the deceased, duly authorised to apply for sequestration; or by a creditor, whose debt amounts to not less than £50; by two creditors, whose debts together amount to not less than £70; or by three creditors, whose debts together amount to not less than £100.

The petition may be presented at any time, but sequestration cannot be awarded until the lapse of six months from the date of the debtor's death, unless he was bankrupt at the date of his death, or, unless the representatives concur in the application or renounce the succession.

5. Where a creditor holds securities over the estate of a bankrupt, what are the rights of a trustee in a sequestration with regard to such securities? Is there any, and if so, what, difference in the case of a valuation made by the creditor in a claim for voting and in a claim for ranking?

Answer

In cases where the value put upon the securities is in a claim for voting, the trustee, with the consent of the Commissioners, within two months after the claim has been used for the purposes of voting, or the majority of creditors at any meeting assembled, during such meeting, may require any creditor holding a security for his debt over any part of the estate of the bankrupt or any obligation or security from an obligant liable in relief to the bankrupt, to assign such security in favour of the trustee, at the specified value, with 20 per cent. in addition.

In respect of a claim for ranking the trustee may demand a conveyance of the security, at the figure put upon it in the claim, without the additional 20 per cent., no time for such action being specified. It is, however, open to a creditor to revalue his security at any time before being called upon to assign it to the trustee.

YEAR 1909

1. A B grants a Trust Deed for behoof of his creditors. A Bank who have a claim against him demand that a dividend be paid to them without their assenting to the Trust Deed or granting him a discharge. State whether they are justified in the position they take up, and give reasons for your answer.

Answer

As a Trust-Deed is a voluntary arrangement, it should be unconditional in its terms, and it has been held that a non-acceding creditor is entitled to draw a dividend from the estate. Hence the bank are perfectly justified in claiming their dividend while withholding their consent to the deed, or the debtor's discharge.

2. State briefly the provisions of the Acts 1621, c. 18, and 1696, c. 5, and mention to what classes of transactions they are intended to apply.

Answer

(a) The Act of 1621, c. 18, was framed with a view to reducing all alienations made by the debtor to conjunct and confident persons, where a just price had not been paid, or without necessary cause.

(b) The object of the Act of 1696, c. 5, was to reduce all preferences granted by the bankrupt to favoured creditors within sixty days of bankruptcy; the idea being to secure as far as possible an equitable division of the estate.

Transactions not struck at are :

- (1) Cash payments actually due and made in the ordinary course of business.
- (2) Transactions in the ordinary course of business—*e.g.* operations on a current account.

(3) *Nova Debita*—New transactions.

Conjunct persons are those bearing relationship to one another, while confident persons are those holding positions of trust, or otherwise having business relations with the debtor. Any such preference, prejudicial to the division of the bankrupt estate, will fall to be reduced. The appeal can go back any time, but it is essential that the debtor was insolvent at the date of the alienation. In such cases there is a presumption of gratuity against the debtor and proof to the contrary is necessary. Further, the person challenging must have been a creditor at the date of the alienation.

3. What is the duty of a bank with regard to money recovered by the trustee in a sequestration and lodged with them, and what liability does the bank incur should they fail to perform their duty?

Answer

It is incumbent on a bank to balance such accounts annually, and accumulate interest with principal. Should it fail to do so, it will be held liable to account as if such duty had been performed.

4. The estates of a company and the individual partners thereof (three in number) are sequestered. What are the rights, as regards ranking on the different estates, of : —

(a) Creditors of the firm?

(b) Creditors of the individual partners?

Answer

(a) Creditors of a firm can rank on the estates of the firm to the entire exclusion of the creditors of the individual partners. They may rank on the company's estate without deducting the value of their claims against the partners; but when it comes to ranking on the estates of the individual partners, they must deduct the value of their claim against the company's estate, and the individual partners, so far as they are liable in relief to one another, and rank equally with the creditors of the individual partners.

(b) The creditors of the individual partners have a *pari passu* ranking, with the creditors of the firm, on the individual estates of the partners.

5. After the final division of the funds of a Sequestered Estate, what is the duty of the trustee with regard to dividends unclaimed? How should a person subsequently claiming a right to any such dividend proceed to make good his claim?

Answer

The trustee is bound to lodge any unclaimed dividends in the same bank in which he kept his account as trustee on the sequestered estate. The money shall be lodged to the credit of an account for unclaimed dividends, and the particulars

shall be recorded in the Register of Unclaimed Dividends kept by the Accountant in Bankruptcy. Thereafter any person entitled to a dividend can only obtain payment of it by applying to the Lord Ordinary, who will grant him a warrant, the production of which to the bank is sufficient authority for them to pay the amount. In practice it is customary to produce the deposit receipt at the same time, so that the bank may put a marking on it relative to the payment.

YEAR 1910

1. At whose instance and before what court may a Petition for Sequestration of the estates of a living debtor be presented, and what are the necessary qualifications of creditors who are parties to the petition?

Answer

Sequestration may be awarded by the Court of Session, or by the Sheriff of the County in which the debtor resided, or carried on business, for the year preceding the date of the petition. The petition may be presented at the instance of the debtor himself, with the concurrence of a creditor, whose debt amounts to not less than £50, or two creditors, whose debts together amount to not less than £70, or three creditors, whose debts amount to not less than £100. Where the debtor is not a party to the petition he must be notour bankrupt, and the petition presented within four months of the date of notour bankruptcy. Creditors qualified as above may present the petition.

2. State briefly the history and objects of the process of *cessio*. Under what circumstances, if any, may the process be superseded by sequestration?

Answer

Cessio Bonorum was a process introduced by Julius Cæsar, whereby an insolvent debtor might secure his personal freedom on granting a disposition of his goods for behoof of his creditors. Thus it first appeared in Roman Law, and from this source was adopted by us, probably through the medium of the law of France. By the abolition of imprisonment for debt, the use of *Cessio* in this sense has become practically obsolete, but it is still to be found, in a remodelled form, as a cheap and summary form of diligence (Debtors' Act, 1880). Formerly the jurisdiction in *Cessios* belonged exclusively to the Court of Session, but in the reign of William IV. it was altered to the Sheriff Court, in which Court it must now be raised, with appeal to the Court of Session.

Where the liabilities of the debtor exceed £200, the Sheriff may, if he think it expedient that the division of the estate

should be regulated by the Bankruptcy Acts, award sequestration.

3. A B grants a Trust Deed for behoof of his creditors. C D has a claim against him of £600, and holds securities over his estate valued at £500. The Trust Deed contains no special stipulations with regard to ranking. For what sum is C D entitled to rank on the trust estate, and would there have been any difference in his ranking if the estates of A B had been sequestrated? Give the reasons for your answer.

Answer

Where there are no provisions in a Trust Deed with regard to ranking, the provisions of Common Law hold good. Under Common Law a secured creditor can rank for the full amount of his debt, without deduction of any security he may hold; thus C D can rank for the full amount of his debt—viz. £600—and use his security to operate payment in full. Under the Bankruptcy Acts, however, it is different, and a creditor holding security over the estate of the debtor must value and deduct the same, and can only rank in respect of the balance—in this case £100.

4. State the objects of an extrajudicial Composition Contract and explain the method by which such a Contract is usually carried into effect. In the event of any of the instalments of the Composition not being paid, what are the rights of the creditors? Would there be any difference in these rights if the Composition had been under a Sequestration?

Answer

The chief object of such an arrangement is to allow the bankrupt to remain in possession of the estate, and carry on the business—instead of divesting him of it, thereby depreciating the value of the business as a going concern. By this means an economical division of the estate is ensured, as the bankrupt is naturally in a better position to make an offer for the business and at the same time is likely to realise it more cheaply than an outside person would. The usual method of carrying out such an arrangement is for the debtor, or someone on his behalf, to make an offer of so much per £, together with security for the due payment of the same, in instalments at stated periods. In the event of failure to meet the instalments as they fall due (unless the original grounds of debt are delivered up discharged at the time the composition is agreed to), the original debt, less any sums received in reduction since the date of the bankruptcy, revives. Under a Sequestration the opposite holds good, and when a composition is agreed to the old debt is discharged, and the debtor remains liable for the amount of the composition only.

5. At what stages in Sequestration proceedings may a

Bankrupt apply to be discharged of the debts contracted by him before the date of Sequestration? State the requisites at each stage.

Answer

Immediately after his examination the bankrupt may petition for discharge, provided he has the consent of all the creditors who have produced their oaths; at the end of six months he may petition with the consent of a majority in number and four-fifths in value; at the end of twelve months with the consent of a majority in number and two-thirds in value; and at the end of eighteen months with the consent of a majority in both number and value. After the expiration of two years he may petition without the consent of any of the creditors. Before presenting a petition the bankrupt has to obtain a report from the trustee as to his conduct, etc., and bearing on the point as to whether his bankruptcy arose from innocent misfortune or reckless trading; and the Lord Ordinary or Sheriff must be satisfied that the bankrupt has paid a dividend of, or provided security equal to, at least 5s. per £; or that his failure to do so arose from circumstances for which he could not be held responsible.

MERCANTILE LAW

THIS is an important subject and calls for considerable attention. The range of study involved is extensive, and it is often difficult to discriminate as to which questions one may be prepared to meet in this paper, and which in Scots Law and Conveyancing. The student is therefore well advised to study the subjects concurrently. The questions appearing under this head, however, chiefly relate to commercial matters, and to the laws governing commercial enterprises; and they may be roughly classed as follows:—(1) Mercantile Securities, (2) Companies, (3) Partnerships, (4) Cautionary Obligations, and (5) Principal and Agent.

(1) *Mercantile Securities*.—Attention requires to be paid to the laws governing documents of title, their mode of transfer, and how the transferee's title to the goods represented thereby is completed; and generally to all documents used in the carrying through of mercantile transactions. In this direction Shaw's "Securities over Moveables," Campbell's "Mercantile Law," chap. v., and Wallace and M'Neil, Part III., chaps. ii. and iii., will be found of great assistance.

(2) *Companies*.—The law relating to the formation of joint-stock companies should be studied, and the student ought to be well versed in the various descriptions of stocks and shares into which the capital of a company may be divided. The principal Act requiring to be studied is the Companies Consolidation Act of 1908. As this is a somewhat recent Act, it will be well to procure a copy of it, or an up-to-date text-book on Company Law.

(3) *Partnerships*.—The constitution of ordinary and limited partnerships requires careful examination. The former is fully dealt with in Campbell, chaps. viii. and ix.; and in addition, chap. iii. of Wallace and M'Neil, on "Special Customers," should be read. As regards the latter form of partnership there is no better course than to carefully read the Limited Partnership Act of 1907 (a copy of which can be procured for 1d.).

(4) *Cautionary Obligations*.—An important branch of the subject is found in the laws governing Cautionary Obligations, and these call for careful study, special attention being paid to the different modes of procedure in the constitution of the security, and the discharge and relief of cautioners, under

"Cash Credit Bonds" and under "Letters of Guarantee." In this connection Wallace and M'Neil, Part I., chap. ii.; and Part III., chap. iv.-vi., should be read.

(5) *Principal and Agent*.—Questions on this important section of Mercantile Law occasionally appear, and to be well prepared the student is recommended to study Campbell, chaps. vi. and vii.; in addition to which a careful reading of the leading sections of the Factors' Acts of 1889 will not come amiss. (See Sh w.)

The above summary indicates in a general manner a course of study that will be found to answer all requirements. The student should, however, bear in mind the necessity of fully comprehending one section before passing on to the next.

YEAR 1906

1. What are the rights and liabilities respectively in a joint-stock company of the holders of:

- (a) Ordinary shares.
- (b) Preference shares, cumulative and non-cumulative.
- (c) Founders' shares.
- (d) Debentures.

Answer

(a) The holders of ordinary shares in a company rank last in order of priority for dividend. They are entitled to any surplus profits remaining over after the other classes of shareholders and debenture holders have received payment of their dividends in full. In joint-stock companies, registered under the Companies Acts their liability is limited to the amount of their subscription.

(b) Holders of preference shares, both cumulative and non-cumulative have a preferential claim for dividend, secondary only to that of the debenture holders. The difference between preference and cumulative preference lies in the fact that in the event of the profits being at any time insufficient to meet the dividends in full, the arrears of cumulative preference dividends accumulate, and form a charge against the company, which charge must be met in full before holders of inferior classes of shares receive any dividends; whereas in the case of non-cumulative shares the dividend is contingent on the year's profits, and in the event of the surplus being insufficient in any one year to meet the dividend in full, the holders have no further claim against the company in respect of any unpaid amount.

As in the case of ordinary shares the liability is limited to the amount of the subscription.

(c) Founders' shares. These shares are subject to any

special agreements entered into by the vendors with the shareholders. As a rule they rank *pari passu* with ordinary shares for dividend, with the proviso that in the event of liquidation of the company their claim shall be subordinate to those of other creditors of the company.

(d) Debentures form a first charge on the assets of the company, and have a claim prior to all other classes of stocks for dividend. Properly speaking, debentures represent borrowings by the company on the security of its property, etc. Debenture holders are consequently not shareholders, but secured creditors of the company, and their liability is therefore nil.

2. Is it competent for a body of trustees to become partners in a private firm, and shareholders in a limited company? If so, to what extent will they be liable in the latter event where their names appear in the register of shareholders expressly as trustees?

Answer

Trustees are not entitled to invest trust funds in a private firm unless they have special authority under the Trust Disposition to do so. If they act without this authority they render themselves personally liable to the beneficiaries, as well as to third parties. With regard to other investments, they are limited in their choice to trustee investments, unless otherwise authorised, and by allowing their names to appear on the register of a limited company, they would place themselves in the same position as other shareholders of the company, and as such their liability would be limited to the extent of the un-called liability on their holding.

3. Upon the death or retirement of a partner in an ordinary trading firm, what course ought to be followed by a bank in the subjoined circumstances:—

(a) An account current in the partnership name:

(1) Overdrawn.

(2) Having a balance at credit.

(b) A guarantee or cautionary obligation:

(1) By the firm.

(2) For and on behalf of the firm.

Answer

(a) (1) In this case operations on the account should be suspended, and if it is not intended to relieve the estate of the deceased, or outgoing partner, intimation of the existence of the debt should be made to his personal representatives, or to him, and a settlement or re-arrangement called for.

(2) It is advisable to open a new account. The surviving partner or partners have, however, the right to withdraw the balance at credit of the old account.

(b) (1) The bank may either relieve the outgoing partner,

or call up the amount due under the guarantee. In the former case they will require to have a fresh guarantee executed.

(2) Cautionary obligations for, or on behalf of, a firm are revoked by any change in the constitution of that firm. Therefore the only course open is to call for a settlement of the debt. To guard against this contingency it is customary to insert a clause in the guarantee to the effect that it will remain binding, notwithstanding any changes in the constitution of the partnership.

4. Is it competent for the directors of a limited company :

- (a) To delegate their powers to a committee.
- (b) To overdraw their bank account, with or without security, when this is not expressly provided for in the Memorandum and Articles of Association.
- (c) To appoint two of their number as auditors of the company.
- (d) To purchase with Reserve Funds, not required for the company's business, its own shares to which liability attaches.
- (e) To make calls upon the shareholders after the company has gone into liquidation.

Answer

(a) Directors can competently delegate their powers to committees consisting of such member, or members, of their body as they think fit.

(b) Directors will not bind the company if they exceed their powers. In such a case they may render themselves personally liable.

(c) Directors and officers of the company are prohibited from becoming the auditors of the company.

(d) On no account can the directors of a company authorise the purchase, with the reserve funds, of shares of the company, to which there is a liability attached.

(e) Such duty would devolve upon the liquidator, and the directors would therefore have no power to make calls upon the shareholders.

5. Distinguish between the following classes of documents, and state which in your opinion are preferable as securities :—

- (a) Bills of Lading.
- (b) Delivery Orders.
- (c) Warrants for goods.

Answer

(a) Bills of Lading, which are transferable by endorsement, are documents issued by shipmasters, acknowledging that certain goods have been delivered to them, and undertaking to deliver them at their destination to the consignees, or their order.

The bill consists of three parts, and the security holder must ascertain the whereabouts of all of these parts, as the master of the ship, provided he acts in good faith, is entitled to deliver the goods to the party who first presents one of the parts. The banker must also be sure of the persons with whom he is dealing, and of their sufficiency for the amount, apart from the transaction in question, as the title, being merely a security one, is subject to any questions that may arise between the seller and the buyer of the goods.

(b) Delivery Orders are orders drawn by the owners of goods on storekeepers, etc., with whom goods are stored, authorising them to hold the goods to, or to the order of, the persons named in the documents. Like Bills of Lading they are transferable by endorsement, but before the title of the pledgee is complete he requires to intimate the pledge to the custodian of the goods, and get his acknowledgment. His title is then in absolute terms and he can hold the goods in security of all advances made, or to be made.

(c) Warrants for Goods are warrants issued by public storekeepers and others for goods stored in their warehouses. These warrants pass from hand to hand on endorsement, but to complete one's title to the goods represented by the warrant, intimation to the storekeeper is necessary. In the case of Iron Warrants some of these issued by large ironmasters have, under special Acts of Parliament, the advantages of negotiability conferred upon them, and thereby intimation is rendered unnecessary.

Delivery Orders and Warrants for Goods are preferable to Bills of Lading on account of the absolute title that can be obtained under them.

YEAR 1907

1. Under what conditions may goods be stopped *in transitu*? Does (a) part payment of the price, (b) arrestment by a creditor of the buyer, or (c) sub-sale, render stoppage *in transitu* incompetent?

Answer

In the event of insolvency of the buyer of goods, the unpaid seller has a right of stoppage *in transitu*: transit existing from the time the goods have left the seller's hands till the time the consignee, or someone acting on his behalf, obtains possession of them.

(a) Part payment would not be sufficient to render the right incompetent and the goods could be stopped for the unpaid balance.

(b) As the title to the goods passed to the buyer immediately they left the hands of the seller, the arresting creditor's claim would defeat the seller's right of stoppage.

(c) Where the buyer of goods is in possession of the documents of title to the goods, with the consent of the seller, any subsequent sale will be good, and will defeat the seller's right of stoppage.

2. May an incoming partner be rendered liable for debts of a firm contracted before he became a partner, and, if so, to what extent?

Answer

An incoming partner will not be liable for the existing debts of the firm unless he specially undertakes them.

3. Where the principal debtor becomes bankrupt, what distinction exists between the position of a surety under a Cash Credit Bond and a guarantor under the ordinary form of guarantee in use with bankers?

Answer

Under a Cash Credit Bond the creditor can exhaust the estate of the debtor, and then call upon the co-obligants for payment of any deficiency up to the amount of their liability under the bond. In the case of an ordinary guarantee, it is open to the guarantor to elect to pay up the amount of his guarantee, and himself rank on the debtor's estate and draw a dividend for the amount so paid. He will of course get an assignation of the debt on his paying the amount to the bank, and this will be the ground of his claim.

4. What is the doctrine of compensation? May it be competently pleaded where:

- (a) A firm sues a creditor of one of its partners.
- (b) A bank agent is indebted personally to an individual who has an unauthorised overdraft from the bank, and who has become bankrupt.
- (c) An overdraft is afforded to a body of executors, while there is a sum on deposit in name of the deceased.
- (d) A contributor to a public company in liquidation is also an ordinary creditor of the company.

Answer

Compensation or set-off is the right of parties to plead the extinction of mutual obligations in cases where they occupy the position of debtor and creditor to each other.

(a) As a firm is not liable for the private debts of its partners, compensation could not competently be pleaded.

(b) The parties must be creditors in their own right and not in a representative capacity; hence compensation could not be pleaded. (The agent may pay, and take an assignation to, the bank's debt, when the two sums may be compensated.)

(c) For similar reasons compensation would be incompetent,

but in the event of sequestration of the estate of the deceased customer it could be pleaded.

(d) Until all the creditors of the company are paid in full a contributory is not entitled to the right of compensation.

5. What are the powers of a mercantile agent as defined in the Factors Act of 1889?

Answer

Under the Factors Act, 1889, a "mercantile agent" shall mean a mercantile agent having, in the customary course of his business as such agent, authority either to sell goods, or to consign goods for the purpose of sale, or to buy goods, or to raise money on the security of goods.

YEAR 1908

1. What are the requisites of an I.O.U., and at what rates does interest accrue thereon?

Answer

An I.O.U. is not a legal document, and there is no legal definition as to the form it shall take. The form in general use is "I owe you the sum of," etc., or simply "I.O.U.," etc. The signature of the granter is essential, but the document need not be dated nor addressed to any person in particular, though in practice such is customary. It is not subject to stamp duty, and, being merely an admission of debt, is only binding on the granter to that extent. Such documents are not governed by the laws applicable to bills, cheques, etc.

Interest, being a matter of special arrangement, does not accrue in the ordinary course.

2. Explain shortly the provisions of the Limited Partnerships Act, 1907, and mention any specific actions which are declared to be *ultra vires* of a limited partner.

Answer

The leading provisions of the Limited Partnerships Act are:

In the case of banks not more than ten persons, and in the case of any other partnership not more than twenty persons, shall be associated as a limited partnership.

The partnership shall consist of two classes of partners: general, whose liability is unlimited; and limited, whose liability is limited to the amount of their contribution (limited partners virtually take the place of sleeping partners of common law partnership). All such partnerships must be registered with the Registrar of Joint-Stock Companies. A partner changing from a general to a limited partner must, besides intimating the change to the Registrar, advertise it in the *Edinburgh Gazette*. General partners decide all ordinary

business matters and a new partner may be admitted without the consent of the limited partners.

Partnerships thus formed cannot be dissolved by notice, but it is competent for limited partners, with the consent of the general partners, to assign their respective shares. The death of a limited partner does not dissolve the firm; and any change in the partnership must be intimated to the Registrar within seven days. Limited partners cannot take an active part in the conduct of the business, and cannot bind the firm. They can, however, inspect the books and advise the firm thereon. They cannot draw out part of their contributions during the subsistence of the partnership without remaining liable for an amount of the firm's debts equal to the amount of the withdrawal.

3. To what extent are the rights of a guarantor affected by the following?—

- (a) Extreme neglect on the part of the creditor to enforce his rights against the principal debtor.
- (b) Giving time to the debtor without the cautioner's consent.
- (c) Discharge granted by the creditor to one of two co-cautioners.
- (d) Payment by an outside person of the amount guaranteed.

Answer

(a) If the guarantor could show that the negligence on the part of the creditor had prejudiced his position he would be freed from his obligation.

(b) The guarantor would be freed, as, by the rules governing cautionary obligations, a creditor is prohibited from giving a debtor time, to the effect of precluding his right of action against the debtor till the expiry of the period granted. Therefore the creditor must on no account tie up his hands in this way.

(c) As the discharge of one cautioner without the consent of his fellow-cautioners is deemed to be a discharge of them all, the guarantor will be absolved from further liability.

(d) As payment by, or on behalf of, the debtor operates as an extinction of the obligation, the guarantor's liability ceases.

4. In the absence of any express contract to that effect, is a banker entitled to retain, against a general balance due by the pledger, negotiable securities which have been pledged for a specific loan?

Answer

The general ruling is that the holder of a security on an *ex facie* absolute title may retain the security till all advances are paid. Where, however, the security has been specially

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pledged or appropriated for a specific loan, a banker's right of retention is defeated on repayment of that loan.

Specific appropriation is a matter of agreement or understanding and would not be inferred from ordinary circumstances, such as a customer having one or two different accounts, say, a current account and a loan account, and the securities pledged against the advance on the loan account. Here the banker would be entitled to retain the securities as against a general debtor balance.

5. What considerations require to be kept in view in order to prevent the bankers of a company from becoming liable for statements contained in the company's prospectus?

Answer

The prospectus of a company forms the true basis of contract between the company and its shareholders, and those who issue it render themselves personally responsible for the truth of the statements contained therein. When, therefore, a prospectus is submitted to a banker in draft form—as it generally is—for the purpose of obtaining the bank's sanction to its name appearing thereon as the bankers of the company, it is essential that such bank makes no suggestions regarding any alterations of the material parts, thereby rendering itself a party to the prospectus. If the bank merely makes some suggestion as to the manner in which its name shall appear on the prospectus it will not be deemed to have incurred any liability thereby, as that does not affect the material facts.

A safe line of action for a bank to adopt is to take no active part in the preparation of the prospectus, and neither directly nor indirectly canvass customers for applications.

YEAR 1909

1. A Bill of Lading representing a cargo is pledged by A to a bank in security of an advance. The bank returns the Bill of Lading to A for the purpose of his disposing of the cargo. A sold the cargo but the price is arrested in the hands of the purchaser by a creditor of A. In an action of Multiplepoining to determine who has right to the price, would the bank or the creditor prevail? Give your reasons, and explain how the matter might have been decided otherwise.

Answer

Wherever a pledgee loses possession of the subject of pledge his security is gone. Hence in the above case the arresting creditor's claim would be sustained.

The case would have been decided otherwise if the bank had parted with the Bill of Lading for a limited purpose only, such

as a sale of the goods represented by the bill on their account ; nor would its title have been defeated by reason of its employing the pledger as their agent for sale.

2. Give the definition of a "private company," as now known under the Companies Act, 1907.

Answer

For the purposes of this Act the expression, "private company," means a company which by its Articles :

- (a) Restricts the right to transfer its shares.
- (b) Limits the number of its members (exclusive of persons who are in its employment) to fifty, and
- (c) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

3. What is the extent of the liability of a "limited partner" for the debts of the firm, to which he has contributed, say, £500 of capital? Has he a right to withdraw that sum during the continuance of the partnership? and suppose he withdraws £250, is his liability for the debts of the firm restricted accordingly?

Answer

A limited partner's liability is restricted to the amount of his subscription. Hence £500 would be the extent of this partner's liability. He cannot legally withdraw part of his contribution during the subsistence of the partnership; were he to do so, he would still remain liable for the debts of the partnership up to the amount so withdrawn: thus, though his interest in the firm is reduced by £250, his liability remains unaltered at £500.

4. What is the maximum number of persons who can be registered as owners of a British ship? How is the property in it registered? Mention, generally, the methods of constituting a security over it.

Answer

In this country not more than sixty-four persons can be registered as the owners of a ship. To have the privileges of a British ship a vessel requires to be registered in terms of the Merchant Shipping Act of 1894.

A register of owners is kept at the port of registry of the ship, and any change in the ownership must be intimated there. Security is taken by way of mortgage (exempt from stamp duty) which has to be produced for registration to the Registrar, who notes on it the fact that it has been recorded by him, stating the date and hour of such registration. Mortgages rank in order of priority of registration, and not according to the dates they bear. Security can also be taken by way of bill of sale, but as the lender is thereby saddled with all the responsibilities of ownership it is not a desirable mode. In either case the lender

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for his further protection should have the policy of insurance endorsed in his favour.

5. A and B jointly and severally guaranteed to a bank the balance due to it by C on his current account to the extent of £1000. C afterwards assigned to B a Policy of Assurance for £500 on his own life to secure B against liability in respect of his guarantee. C became bankrupt, and each guarantor paid £500 to the bank. Some time afterwards C died and the amount of the Policy was paid to B. Is A entitled to a share of it? If so, to what extent? Give reasons.

Answer

Cautioners are entitled to relief *inter se*. One cautioner receiving security from the principal debtor is bound to communicate the fact, and share it with his fellow-cautioners, unless it has been specially stipulated, with the consent of all, that the security is to operate only for the relief of the one receiving it. A is therefore entitled to relief from B to the extent of £250.

YEAR 1910

1. Define :—Charter Party, Dead Freight, Discussion, Del Credere Agent and Partnership.

Answer

(a) A Charter Party is a contract between the owner of a ship and a party hiring the whole, or part of it, for a voyage. No particular form of words is necessary, though in practice a skeleton printed form is used, the blanks being filled in to meet the special requirements of each case.

(b) If, contrary to the terms of the contract, the person chartering the ship does not load a full cargo, thereby depriving the owner of the vessel of the full freight, such shipowner has a claim against the charterer which is known as Dead Freight.

(c) Discussion is the act of a creditor doing diligence against the principal debtor under a bond, before proceeding against the guarantor. It is accomplished by giving the principal debtor a charge for payment under a Decree of the Court, and recording the charge in the Register of Inhibitions, or by any other recognised form of diligence.

(d) Under a Del Credere Agency or Partnership the contracting parties engage to guarantee, in respect of an extra commission, the payment of all goods sold, whether they receive the price or not.

2. What are the essentials and limitations requisite to the constitution of a limited partnership? State the main differences between general and limited partners as regards (a) their powers, and (b) their liabilities, and say under what

circumstances they would stand on the same footing as regards the latter.

Answer

Before a limited partnership can be formed it is essential that there be both a general partner, or partners, unlimited in their liability to the public, and limited partners, whose liability is limited to the amount of their contributions to the partnership funds.

In the case of a bank not more than ten persons shall be associated as a limited partnership ; and in the case of any other concern not more than twenty persons.

(a) A general partner has the full powers of contracting as under an ordinary partnership.

A limited partner cannot take an active part in the management of the business, or bind the firm. He may, however, inspect the books and advise thereon.

(b) The general partner is liable for all the debts and obligations of the partnership, whereas the limited partner's liability is limited to the amount of his contribution.

Where a limited partner is not duly registered as such the partnership shall be deemed to be a general one, and under such, limited partners will be deemed to be general partners.

3. Mention briefly the different ways by which a cautioner may be freed from liability under his obligation.

Answer

A cautioner may be freed from his obligation by payment on behalf of the principal debtor operating as a discharge of the obligation ; the creditor infringing the rules governing cautionary obligations, such as giving the debtor time or parting with securities ; extreme neglect to the prejudice of the guarantor ; discharging one cautioner without the consent of the other co-obligants ; or unfairness at the outset.

4. A shareholder in a Limited Company, the shares of which are not fully paid up, sells his shares, and the transfer to the purchaser is duly registered. Does the seller's liability for the company's debts terminate upon registration of the transfer ? If not, for how long does he continue liable, and to what extent ?

Answer

In the event of the winding up of a company, and the calls payable by the registered shareholders proving insufficient to meet the liabilities of the company, the past registered shareholders, who have transferred their shares within a year prior to the winding up, remain liable. The liability of such past members is, however, limited not only by the amount remaining unpaid on the shares formerly held by them, but also by their being liable only in respect of debts and liabilities contracted by the company before they ceased to be members.

5. A firm with considerable advances offer as security 500 bags of flour, being part of a lot which they have had lying in store for some months. State, in detail, how a bank can obtain an indefeasible security over the goods. On what points would you have to satisfy yourself to enable you to report to Head Office that the security had been made available to its fullest extent and all relative contingencies provided for?

Answer

Should the bank not be in a position to take actual delivery of the bags of flour, they should get possession of the documents of title to the goods. This may take the form of a Delivery Order or a Storekeeper's Warrant: the goods must be stored with a neutral storekeeper, the order duly intimated to him, and an acknowledgment obtained from him to the effect that thereafter the goods are held to the order of bank. For further protection the goods should be insured in the bank's favour.

LAW OF BILLS, CHEQUES, AND DEPOSIT RECEIPTS

MUCH that has been said about the corresponding subject for the Associates' Examination holds good here. More or less the work will be one of revision, and as such, possibly does not require the same amount of attention as some of the other subjects; but the duty, light as it may be, should not be neglected, or the consequences may be disastrous. It is surprising how quickly the actual provisions of the Act escape the memory. A general idea is all very well in its way, but it is hardly sufficient to satisfy the demands of the examiner. Moreover, the subject is an important one, and plays a prominent part in the banker's everyday life. It therefore behoves the man who strives for success to have a thorough knowledge of detail. Questions are continually cropping up regarding points in the negotiation of bills and cheques which at the moment seem puzzling, and this is where a sound knowledge of the Act stands one in good stead; and thus long after the examination is past, the benefits derived from a thorough study of it continue to manifest themselves. In addition to a knowledge of the laws relating to bills and cheques, the candidate is expected to be fully conversant with all questions bearing on the negotiation of Deposit Receipts, and especially those affecting their discharge. This information he can best acquire from the observance of daily practice, or through reading the chapters of the text-books treating on the subject, especially chap. i., Wallace and M'Neil.

A close study of the Bill of Exchange Act is imperative, and in addition Wallace and M'Neil, Part II. may be used for reference.

YEAR 1906

1. What are the requisites for the due notice of dishonour of a bill? Can such a notice be given verbally, and what is the effect of a written notice which is not signed by the sender?

Answer

Notice of dishonour is effectual, provided it is given in terms sufficient to identify the bill, such as an indication of the amount, due date, parties, etc. The intimation may take the form of a written notice, which is not invalidated by reason

that it is not signed, or it may be made by verbal communication.

2. What prescription applies to Bills of Exchange? What effect has the expiry of the statutory period on the bill as a document of debt and on the debt for which the bill was granted? When do the years of prescription begin to run on the following :—

- (a) A Bill payable two months after date.
- (b) A Bill payable on demand.
- (c) A Bill payable at sight.
- (d) A Bill payable two months after the arrival of the steamship *Scotia* at Glasgow.

Answer.

The Sexennial Prescription applies to bills. After the expiry of the statutory period payment is legally presumed to have been made. Proof to the contrary is thereafter incumbent on the holder and is limited to the writ or oath of his adversary.

The bill is therefore useless as a document of debt, and though the debt itself is not extinguished, the existence of it must be proved by independent evidence.

The prescriptive period commences to run in the case of

- (a) From the last day of grace.
- (b) and (c) From the date of the bill.
- (d) As this is not a Bill of Exchange the Sexennial Prescription does not apply.

3. What is the effect of the presentation of a cheque for £100 drawn by a customer on a banker in Scotland in favour of a third person who, when the cheque is presented for payment, has £80 at his credit on current account and £20 on Deposit Receipt? What difference, if any, would it have made had the cheque been drawn on a London Bank?

Answer

In Scotland, where there are insufficient funds at credit of an account to meet a cheque drawn against it, presentment of such cheque operates as an intimated assignation of the funds at credit of the account on which the cheque is drawn. Hence the £80 at credit of the current account would be attached by the presentment of the cheque for £100. The funds on Deposit Receipt being on a separate account would not be attached. In England this rule does not obtain, and presentment of the cheque would therefore attach no funds.

4. When does a banker's authority to pay a cheque drawn on him by his customer cease? When does a cheque become stale or overdue?

Answer

A banker's authority to pay his customer's cheques ceases

on his receiving notice of (a) his customer's death, or (b) countermand of payment.

Apart from these contingencies he may have a legal right of retention of the funds ; the funds may be arrested, or his customer may be notour bankrupt.

5. A domiciled Englishman has a sum on Deposit Receipt with a Scottish bank. After his death, on what signature, and on production of what document or documents, can payment of the amount be demanded ?

Answer

The bank may pay the proceeds of the Deposit Receipt to the executors of the deceased, provided the fund is included in the probate of his estate, and the probate exhibited in the Sheriff Court in Edinburgh, and certified by the Commissary Clerk.

The bank, will, of course, require the executors to endorse and deliver the receipt and exhibit the probate to them.

YEAR 1907

1. What are the provisions of the " Bills of Exchange (Crossed Cheques) Act, 1906," and what change in the law has the Act made ?

Answer

The provisions of the Bills of Exchange (Crossed Cheques) Act, 1906, are that " A banker receives payment of a crossed cheque for a customer, within the meaning of Section 82 of the Bills of Exchange Act, 1882, notwithstanding he credits his customer's account with the amount of the cheque before receiving payment thereof."

Prior to the passing of this Act a banker, in order to obtain protection under Section 82, above referred to, had to act solely as an agent for collection. He could not credit his customer's account with the proceeds of the cheque, and then receive payment of it, as it was held that in such a case he was receiving payment on his own account—he being a holder for value—and not on account of his customer.

2. What is the effect as regards the validity of a bill if the acceptor sign before the drawer ? Would it make any, and if so, what, difference if the acceptor signed on the back of the bill ?

Answer

There is no fixed rule as to which party to a bill shall sign first. The Act says that where a blank stamped paper is delivered signed, the holder may use the signature as that of the drawer, endorser or acceptor, and thus though it is not

met with in ordinary practice, it would be quite valid for the acceptance to be on the back of the bill.

3. Under what circumstances, if any, can a person whose name has been forged to a Bill of Exchange be held liable on the instrument at the instance of an onerous holder? After the forgery becomes known, notices are sent to the person whose name is forged intimating the dishonour of the bill, and he pays no attention to such notices, what is the legal effect of his failure to repudiate liability?

Answer

A person, whose signature to a bill has been forged, may be precluded from setting up the forgery if homologation can be proved—that is, if it can be proved that by his conduct he actually adopted or acknowledged the signature as his own and led others to act on that assumption. Mere silence on his part, or failure to respond to notices sent to him, will not be sufficient grounds to prove adoption.

4. Can a banker debit a customer's account with any or all of the following cheques paid by him, assuming that the payments have been made in good faith:—(a) where the endorsement turns out to be forged; (b) where the signature of the drawer has been forged, and (c) where a crossed cheque has been paid over the counter duly endorsed, with the addition of the words “pay in cash”?

Answer

(a) Under Section 60 of the Bill of Exchange Act of 1882, a banker who, in good faith and without negligence, pays an order cheque drawn on himself to, or to the order of, a party purporting to be the payee is protected. He can therefore debit this cheque to his customer's account.

(b) A banker being bound to know the signature of his own customer, cannot debit his customer's account with the amount of a cheque, the signature of which is forged.

(c) As the crossing on a cheque signifies that such cheque shall only be paid by the banker, on whom it is drawn, to another banker, the banker who pays such a cheque in disregard of the crossing does so at his own risk. “Pay-in-cash” being an addition not recognised by law has no material effect on the negotiation of the cheque.

5. On whose discharge will a bank be in safety to pay Deposit Receipts in the following terms, A having died:—

(a) A, B, and C.

(b) A, B, and C jointly.

(c) A, B, and C payable to the survivors or survivor of them.

(d) A and B payable to either or the survivor. A being indebted to the bank and the bank claiming to hold the proceeds in respect of his indebtedness.

Answer

A bank can only pay the above Deposit Receipts with safety if discharged by :

- (a) B and C and the executors of A.
- (b) B and C and the executors of A.
- (c) B and C.
- (d) B.

In this case the bank has no legal right of retention of the funds unless it actually holds the receipt endorsed by both parties, together with—as a precautionary measure—a letter signed by both A and B, descriptive of the transaction and empowering it to retain the funds in security of advances to A.

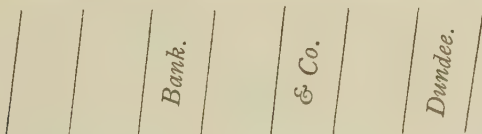
YEAR 1908

1. Explain the effect of a signature to a Bill of Exchange, *per procuration*, and state how procuration may be constituted.

Answer

The effect of a procuration signature to a bill is to prove that the person signing does so in a representative capacity and is not personally liable. Persons taking such bills are bound to inquire into the extent of the agent's authority. Procuration may be constituted by writing, in which case the letter is subject to stamp duty of 10s., or it may be inferred from a previous course of transactions, in the course of which the agent's acts were adopted by his principal.

2. What is meant by the term "crossing" a cheque? Define (a) a "general," (b) a "special" crossing. Are the following, or any of them, crossings recognised by law?



Answer

Where a cheque bears on the face of it two transverse parallel lines, with or without the addition of the words, "and Company," or any abbreviation of them, it is said to be crossed, and such crossing is a General Crossing.

Where the cheque bears across the face of it the name of the banker, as well as the transverse lines, it is crossed "specially" and to that banker.

Each of the above examples constitutes a General Crossing, "Bank" and "Dundee" being additions not legally recognised.

3. Define the following terms :—

- (a) Cross Accommodation Bills.
- (b) " Restrictive Endorsement " of a bill.
- (c) " Days of Grace."

Answer

(a) Cross Accommodation Bills are met with where two parties, for their mutual accommodation, accept for similar amounts bills drawn on each other, and thereafter discount them.

(b) A Restrictive Endorsement on a bill is one which proves the rights of the endorsee limited, or one which prohibits further transfer.

(c) All bills, except those drawn payable on demand, at sight, or on presentation, are entitled to have three days added to the time for payment as fixed by the bill ; these days being known as " Days of Grace."

4. A banker on whom a cheque is drawn pays it on an endorsement purporting to be that of the payee. The endorsement turns out to be forged. What is the banker's liability ? Give the authority for your answer.

Answer

Under Section 60 of the Bills of Exchange Act, a banker, who, in good faith, pays a cheque, drawn on himself, to any person purporting to be the payee is not liable to the drawer of the cheque in the event of wrong payment having been made. Of course the Section only bears reference to uncrossed cheques.

5. A has £500 on Deposit Receipt with a bank in Scotland. He dies domiciled in England, leaving a will appointing executors. What steps do the executors require to take in order to obtain payment of the amount due under the receipt ?

Answer

Where a person dies domiciled in England leaving funds in Scotland, Probate is taken out in the English Court and exhibited in the Sheriff Court in Edinburgh, and a certificate is endorsed on it by the Commissary Clerk to the effect that it has been so produced. Thereafter it has the same effect as Confirmation in the Scottish Court, and the bank will pay the amount to the executors on their exhibiting the Probate and delivering the Deposit Receipt endorsed by them.

YEAR 1909

1. A bill falls due in Edinburgh on 10th March 1909, and is dishonoured by non-payment. State the steps an endorsee must take to enforce it by Summary Diligence, and to preserve recourse against the drawer who resides in Glasgow : also within what time the respective steps must be taken.

Answer

To preserve recourse against the parties to a bill, the holder must have it noted on the day of dishonour, and notice of dishonour, to the drawer, must be posted in Edinburgh not later than 11th March.

The protest must be registered in the Books of Council and Session within six months, and the holder may then proceed on an extract thereof. (See also page 164, Question 4.)

2. A cheque for £20 by A B on his account in favour of C D is presented to his banker in Glasgow, but the sum at his credit is only £5. What is the effect of the presentation of the cheque, and what steps should the banker take in the circumstances? Would there have been any difference had the cheque been drawn on a banker in Birmingham?

Answer

In Scotland, where there are funds at credit of an account, but insufficient to meet a cheque drawn against it, presentment of the cheque acts as an intimated assignation of the funds. Hence the £5 would be carried to a special account bearing reference to the cheque, and the banker would not part with the amount until he got delivery of the cheque, or was satisfied that the payee had withdrawn his claim to the funds. In England, presentment of a cheque does not attach funds at the credit of the account, if they are insufficient to meet it.

3. Distinguish between "joint" and "joint and several" liability on a Promissory Note. What is the liability of the maker of a Promissory Note in the following circumstances?—

- (a) Where the Promissory Note runs, "I promise to pay," but is signed by three persons.
- (b) Where it runs, "We promise to pay," and is made in Scotland.
- (c) Where it runs, "We promise to pay," and is made in England.

Answer

Where parties are "jointly" liable on a Promissory Note, each is liable for his share, *pro rata*, and only in the event of failure to pay on the part of any of the others can he be called upon for more than his share.

In cases of "joint and several" liability, each is liable for the full amount under the instrument.

(a) (b) and (c) In each of these cases the liability is joint and several.

4. What is a sufficient discharge of a Deposit Receipt in the following circumstances?—

- (a) Where the receipt is payable to A B, and he is dead.

- (b) Where it is payable to A B and C D, and C D is dead.
- (c) Where it is payable to A B and C D or the survivor, and A B is dead.
- (d) Where it is payable to A B and C D or the survivor, and both are dead.

Answer

- (a) This receipt requires the discharge of the executors of A B.
 - (b) The discharge of C D's executors is necessary, in addition to the endorsement of A B.
 - (c) The endorsement of C D is sufficient.
 - (d) In this case the discharge of the executors of the last survivor is all that is required.
5. Define "acceptance" of a Bill of Exchange, and state what conditions are essential to a valid acceptance.

Answer

The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer.

To be valid it must be written on the bill, and be signed by, or under authority of, the drawee, and must not express that he will fulfil his obligation by any other means than by the payment of money.

YEAR 1910

1. Can a bill competently be accepted for honour *suprà* protest for part only of the amount for which it is drawn? State the position of a holder who refuses to accept a payment for honour *suprà* protest, and explain how such a payment may be distinguished from a mere voluntary payment.

Answer

A bill may competently be accepted for part only of the amount. Where a holder refuses to take such a payment he loses his right of recourse against all parties, who would have been discharged by such payment. A "payment *suprà* protest" is distinguished from a mere voluntary payment by being attested by a notarial act of honour, following upon a declaration made by the payer, declaring his intention to pay the bill for honour, and for whose honour he pays it.

2. A, who is a customer of the Edinburgh Bank, finds a crossed cheque, drawn upon the Aberdeen Bank, to which he forges the endorsement of the payee and adds his own signature. He then hands the cheque to his bankers, who place the amount to the credit of his account, and immediately allow him to draw against the increased balance. Payment is obtained by the Edinburgh Bank from the Aberdeen Bank,

and before the forgery is discovered A absconds. Does the Edinburgh Bank, in these circumstances, incur any liability to the true owner of the cheque? Would its position have been different in 1905? Give reasons.

Answer

Under the Crossed Cheques Act of 1906 a banker who, acting in good faith, and without negligence, receives payment of such a cheque, on account of a customer, is protected. Therefore the Edinburgh Bank would not be liable. Prior to the passing of this Act, to obtain protection under Section 82 of the Bills of Exchange Act of 1882 a banker could only *collect* the cheque on account of his customer, and if it were paid into the customer's account before being collected he lost the protection of the section.

3. What rights accrue to the holder of a bill where during its currency (a) the acceptor becomes bankrupt, (b) a party liable becomes *vergens ad inopiam*?

Answer

(a) Where the acceptor of a bill becomes bankrupt during the currency of the bill, the holder may protest the bill for his better security.

(b) In Scotland, where the party becomes "*vergens ad inopiam*" during the currency of the bill, the holder may obtain diligence *e.g.* arrestment or inhibition.

4. Describe briefly the various ways by which a bill may be discharged. In the case of Prescription, what effect has the expiry of the statutory period on the liability of the acceptor to make payment of the debt for which the bill was granted?

Answer

A bill may be discharged by—

- (a) Payment in due course.
- (b) Novation, which is the substitution of another obligation for the existing one.
- (c) Delegation, which is a change of debtor.
- (d) Cancellation, where the holder intentionally cancels the signatures.
- (e) Renunciation, where the holder renounces his claim.
- (f) Confusion, where the acceptor becomes the owner of the bill in his own right.
- (g) Compensation, where the debtor has the legal right of setting off another debt against the bill.
- (h) Prescription. The Sexennial Prescription applies to bills and after the expiry of the six years payment is legally presumed to have been made. Proof to the contrary is thereafter incumbent on the holder, and is limited to the writ or oath of his adversary. (See also Year 1906, Question 2.)

5. A bank grants a Deposit Receipt in name of A, which he endorses and hands to B. What is the legal presumption with regard to B's right of property in the money deposited? On what authority should a banker make payment of the sum contained in a judicial consignment receipt?

Answer

As a Deposit Receipt is not a negotiable document, B is presumed to be A's mandatory to uplift the sum due under the receipt, and is deemed to have no right of property in the money.

Before paying judicial consignments, a bank should get an Official Extract of the Decree of the Court. The bank may also act on a certified copy of the Interlocutor containing an order to pay.

PRACTICAL BANKING

To most candidates, by reason generally of their limited experience, this is a somewhat formidable subject. This fact is emphatically borne out by the remarks of the examiner for 1910: "The predominating weakness of the papers is obviously the result of lack of experience—many answers both in matter and form indicating an extremely crude conception of the subject."

It is believed that the solutions now provided will be found particularly helpful, in their study of this subject, by those in whose daily routine the practical problems of banking do not figure to any great extent.

I. CORRESPONDENCE

Candidates should not be led to suppose that this section of the subject may be neglected, as if it were quite an easy matter to compose a few letters. Indeed, a rather severe task is set—looking to the short time at the candidate's disposal: in the first place to reduce the problems to satisfactory solutions, and then to compose model epistles embodying the conclusions arrived at.

As to the material offered for consideration in the questions, this is to a certain extent derived from transactions of common occurrence, and in these cases the student should have little difficulty in supplying the necessary answers. In other instances there is involved a point of law, or a transaction not frequently met with in Branch procedure, and the student's preparation for these will have to be met by the reading prescribed for Scots Law, Mercantile Law, and Practical Banking (Advances).

There remains the task of writing good, businesslike letters. Readiness and excellence in this direction (so far as not a natural gift) come only from personal observation and experience. Students should take an interest in the correspondence passing through their own offices, and should note the force and pithiness of some letters and the weakness of expression and monotony of repetition in others. The following hints on letter-writing are worthy of attention:—

All correspondence should, of course, be characterised by strict adherence to the rules of the King's English: strict

accuracy in the use of words, and that natural and flowing arrangement into sentences and paragraphs which makes all the difference between jerkiness and the finished production.

Business letters in particular should be constructed with regard to :

(1) *Correctness*.—A man must stand by his written word, and every expression used and statement made should be weighed in the scales of exactness. Nothing inaccurate, however stylish or clever it may appear, should be allowed to pass. Thus, slang words and phrases and exaggerated statements are to be altogether avoided.

(2) *Clearness*.—The meaning intended to be conveyed should be apparent at a glance. If obscurity is to be avoided, not only must the writer's reasoning be clear, but the literary causes of confusion must not be permitted a place—namely, involved sentences, incorrect punctuation, and expressions capable of bearing more than one interpretation.

(3) *Conciseness*.—The straightest road to the point is the best, and the simplest word, if accurate, is to be preferred to the more "flowery." Irrelevant matter and useless words alike involve a waste of time on the part both of the writer and the reader of the letter.

(4) *Courtesy*.—Not only should the mode of expression be complete, and not abrupt, but the *tone* of the composition should be courteous. Especially must this quality characterise communications with customers, who judge a bank largely from their impressions of the manner of the officials and the terms of the correspondence. Unless for the sake of emphasis (and even then firmness should not displace dignity) softness is preferable to harshness, and the indirect query, or assumption, to direct interrogation and peremptoriness.

The letters written by the candidate should be complete in every particular : Address, date, addressee, salutation and valediction. (Considerations of space have led to these being omitted in the specimens appended.)

Letters between offices of the same bank should invariably be headed with the subjects to which they refer (this for reference and indexing purposes). When writing to Head Office, care should be taken to present all the essential particulars relating to the subject ; and for their guidance the writer should give distinct expression to his own views, and submit his definite recommendation.

II. BRANCH SUPERVISION

The questions set here are not in themselves difficult, but are found troublesome by many, owing to the want of text-

books on the subject. Of course, detailed exposition of the work of the Inspectors' Department will not be found in print ; but candidates may be referred in this connection to an article entitled " A Branch Inspection," which appeared in the second number of *The Scottish Bankers' Magazine* (July 1909).

Points to which attention should be given are : Forms of the Branch Returns to Head Office, instructions issued by Head Office, and the procedure of the Inspector who visits the Branch. This preparation, with a general knowledge of routine work and the application of some careful thought should ensure success.

In cases where the question is evidently framed on a system not in vogue in the candidate's bank, the answer should describe the practice of his own institution.

III. ADVANCES

This section forms a combined test of the student's reading and experience, calling particularly for a knowledge of the principles of Mercantile Law, and Scots Law and Conveyancing. Many of the questions, however, are in a form not met with in Law text-books, and here the candidate must trust to his conception of the principles and practice of banking management, and to the dictates of common-sense.

The various forms of security for advances should all be carefully studied, special attention being paid to the methods of completion of title, and examinees are expected to be familiar with the rules which should govern the handling of advances.

" The Country Banker," by Rae, will be found of assistance by students whose experience of advance business has been confined to narrow limits—providing, as it does, an interesting and able introduction to the subject. The chapters on Advances and Balance Sheets are exceptionally instructive and useful in this respect.

Discrimination must be exercised in the reading of all books of English origin, however, as in many details the law laid down is at variance with that of Scotland.

Of course the candidate should be acquainted with the book of instructions which most Head Offices supply for the guidance of their agents and staffs ; and all important circulars bearing on the conduct of the business should be perused, and their contents noted. The other books recommended will be found fully dealt with in the notes on the above-mentioned Law Subjects.

YEAR 1906

CORRESPONDENCE

1. Write a letter to H.O. accounting for a decrease of £20,000 in the Deposits of your Branch, stating what prospect there is of having these replaced by fresh deposits and what steps you are taking in the matter.

Answer

Decrease in Deposits

DEAR SIR,—I much regret that you have had occasion to call my attention to this matter.

The destination of the £20,000 withdrawn has been as follows:—£2000 has been invested by two ladies in Consols; £5000 has been invested in various Stock Exchange securities; distribution of trust funds accounts for £3000; the local Savings Bank has attracted small deposits to the extent of £2000; an English “bank” has induced a depositor of £2000 to leave us; the Town Council has raised a loan, of which £1000 has been drawn from us; and £1000 has gone to the Co-operative Society. The remainder represents a decrease which was unavoidable owing to the great depression of trade in this district.

The bank may rest assured that I do my utmost to retain customers, and to form new connections. I certainly get a fair share of the new business that is to be had. With the revival of trade I am confident that progress will be shown.

2. A Cash Credit for £400 at your Branch has been formally called up by the H.O.: the Principal is worthless, but his four co-obligants are quite good. The account is Debtor £400, and one of the co-obligants sends you £100 in payment of his share of the amount due. Write a letter to him in reply.

Answer

DEAR SIR,—I have received your letter enclosing cheque for £100.

I may point out that (as you must be aware) each co-obligant on the Cash Credit is *severally* liable for the full amount of the bond—while, of course, co-obligants are entitled to relief amongst themselves. Into the question of “sharing” the obligation, however, the bank cannot enter, and we must therefore hold you liable for a further sum of £300 until the debt is extinguished.

Meantime I have placed the £100 to the credit of an account in my name for sums received on account of your obligation. Compensating interest on this account has been sanctioned by the bank.

3. A Private Limited Liability Company have a large unsecured overdraft at the Branch; the account is operated on by the Directors, who are all men of wealth, but no Excerpt Minute is held authorising overdrafts. Write a letter to H.O. stating the position of matters, making such recommendations as you think advisable, and asking instructions.

Answer

A. B. Co. Ld.—O./D. £10,000

DEAR SIR,—With reference to the above unsecured overdraft, I have to explain that no Excerpt Minute of the Company authorising overdrafts is held. The account is operated by the Directors, Messrs —, who are all men of wealth. I consider that the advance, resting on their names, is quite safe; but, to bring the matter into order I suggest that we now either apply for the regular authority of the Company, or request the Directors to interpose their personal guarantee for the obligation.

4. At your request the bank opened a Sub-Branch in one of the districts of your town, but at the same time one of the other banks in the town also opened a Sub-Branch in that district. After trial of a year or so you find that no new business of value has been obtained, and there seems little prospect of improvement, and you have good reason to believe that your opponent's venture is not any more successful than your own. Write a letter to H.O. reporting the position of matters, and stating what should be done in the circumstances.

Answer

Sub-Branch

DEAR SIR,—I regret that, after a year's trial, I have to report that the business of the Sub-Branch at — has made so little progress that I now recommend its withdrawal. As you are aware, the Provincial Bank opened a Sub-Branch in opposition; and I have every reason to believe that their business is as poor as ours. I consider that by withdrawal neither bank would lose a connection of any value, and I suggest that the Provincial Bank be approached with a view to an arrangement to act together.

BRANCH SUPERVISION

1. What rules should be laid down to regulate the comparison,

checking and balancing of the Individual Ledgers of a Branch where there are two or more Ledger Clerks?

Answer

Each Ledger should be checked and balanced by a clerk other than the one who posts it. The agent should see that customers' pass-books are frequently compared with the Ledger.

2. What is the most satisfactory check (and one in itself complete) for the detection of fraud committed by omission or alteration of items in customers' accounts in the Individual Ledger. And how, when and by whom should it be employed?

Answer

The only entirely satisfactory and complete check on the working of the Current Account Ledger is comparison with the customers' pass-books. This duty devolves upon the agent, and it should invariably be performed at the Annual Balance, and periodically in addition.

3. If you were inspecting a Branch on 4th May and on checking the Teller's Cash Book you noticed the deletion of an item of £25 which had appeared as a credit to a Customer's account on 2nd May, and further examination showed the same item deleted from the Clean Cash Book, what inquiries would you make? If an explanation satisfactory to yourself could not be obtained, what action, if any, would you take?

Answer

The fact that the entry had appeared both in the Teller's Cash Book and in the Clean (or Weekly) Cash Book shows that there must have been a corresponding voucher. It would be necessary to find out how the entry of the pay-in-slip had come to be cancelled, and it should be seen whether the relative Ledger Account showed the entry. In the absence of a satisfactory explanation, the customer's pass-book should be sent for.

4. Suggest methods for prevention or detection of the following :—

- (a) Misappropriation of the Commissions charged on cheques payable in other towns where you have no branches, cashed by you at banks in your town.
- (b) Peculation of money supplied for the Branch Postages, and of money received in payment of cheque books sold.

Answer

(a) Such vouchers should be entered to the debit and to the credit of Cheques Remitted Account (the commission appearing with the entry) and passed through the Cheques Remitted Register.

(b) The entry in the Postage Book should be initialed by the Teller on his supplying the money. The book should be

compared daily with the Letter Book, and the cash on hand balanced weekly by a responsible officer.

Money received for cheque-books sold should be credited daily to Stamp Account, and the forms on hand should be balanced regularly at short intervals.

5. State any reasons which occur to you why the following procedure should not be followed at a Branch—viz. :—

- (a) The calling of the Agent or other officer at the place of business of a customer—or customers—and there receiving cash, cheques etc., for credit of the Customer's account, and entering the amount in the Pass-book.
- (b) Acknowledging securities lodged for Safe Custody on ordinary letter paper, instead of on the printed form supplied by the bank for the purpose.

Answer

(a) Such a practice is objectionable because there is no guarantee that the entries made in the bank's books correspond with the entries in the pass-books and the sums received. An entry in a pass-book should be made from the slip received from the customer, and the entry countersigned by the Ledger Clerk, who should retain the slip and post the ledger from it. It is his duty to see that no discrepancy arises between pass-books and ledgers.

(b) This probably refers to the usual printed notice that no responsibility is undertaken by the bank in respect of articles lodged for safe custody. The value of this disclaimer is obvious.

ADVANCES

1. If one of the Sureties for a Cash Credit dies, must operations on the account be stopped? What steps, if any, should be taken with regard to his representatives? Give reasons.

Answer

In the event of one of the Sureties on a Cash Account dying, it is not necessary to stop operations on the account: the obligation, being a continuing one, is prestatable against his estate. It is, however, desirable that the debt be intimated to the representatives of the deceased person within a reasonable time and their acknowledgment obtained in writing—the object being to ensure that the bank, if necessary, participate in the distribution of the estate. Should it be desired that the estate of the deceased person be relieved from liability in respect of the obligation, and the bank is agreeable to this, the consent of all the other parties to the bond must be obtained in writing, and the estate will then be relieved by minute endorsed on the bond.

2. A customer who has a Cash Credit on personal security, and who is not strong financially, is unable to provide for the interest on the Annual Balance day. What would you do in the circumstances, and why ?

Answer

Under the circumstances no interest that has the effect of overdrawing the account should be applied ; for, when interest is debited to the account it ranks as principal, and the cautioners would not be liable for the excess overdraft. The bank should carry the interest forward as such, and keep in view the recovery of it from the principal debtor at as early a date as possible ; failing payment within reasonable time the co-obligants should be informed of the position of affairs, and, if necessary, called upon to make good the amount.

3. If the current account of a Parish Council showed Debtor balances continuously throughout two consecutive years, what would you infer, and what action, if any, would you take ?

Answer

Parish Councils, for current expenditure, can only borrow to the extent of one-half of the outstanding rates for that year, but in no case can they borrow against the security of another year's assessment till the former debt has been paid. The inference therefore is that the accounts are not being properly handled, and an explanation would be necessary.

4. A customer requests an overdraft of £500 and offers in security a Pro. Note for that amount, payable one day after date, by himself and two others, who are perfectly good for such an obligation. Do you think this form of security for an operative account satisfactory or otherwise ? Give your reasons. If you do not care to accept the Pro. Note in security, what would you suggest to your customer ?

Answer

Bills are not, generally speaking, a desirable foundation for such an obligation. When taken, the rules applicable to cautionary obligations must be observed. The bills are liable to prescription, and it is a fixed principle in law that all sums paid in go in reduction of the obligation—unless there is a contract to the contrary. It is therefore more satisfactory to have a formal Cash Credit or a Letter of Guarantee, providing for operations.

5. Give your views as to the desirability of granting advances against produce ; and mention some considerations to be kept in mind in making such advances, and special risks to be guarded against.

Answer

In granting advances against produce it is essential that the produce be stored with a neutral storekeeper ; intimation of

the pledge made to him; and his acknowledgment obtained. The risks of fire must be covered by Insurance, and there is also the danger that the goods, if of a perishable nature, may depreciate in the course of time. The stability of the borrower is therefore of great importance in such transactions.

YEAR 1907

CORRESPONDENCE

1. Write a letter to H.O. on behalf of an applicant for payment of a mutilated note—part of the latter having been destroyed—mentioning any document you think should accompany the note.

Answer

Mutilated Note

DEAR SIR,—Our customer, Mr A. B., has applied for payment of a £5 note which he accidentally threw into the fire while destroying some papers. I enclose the remains of the note (showing date and number), along with affidavit by Mr A. B. narrating fully the circumstances; and, as he is a man of substantial means, I recommend that payment be made to him on his granting the usual discharge.

2. A customer at your Branch applies for a short loan. Write a letter to H.O. asking authority to grant it, quoting the securities offered and showing the margin per cent.

Answer

Proposed Loan to Mr. Y. Z.

DEAR SIR,—I have pleasure in submitting to you an application by our customer, Mr Y. Z., for a loan of £500 for three months, against the following securities:—

30 Ord. Shares J. & P. Coats Ld. at £12	=£360
400 North British Railway 3 per cent. Deb. at $84\frac{1}{2}$	= 338
	<u>£698</u>

showing a margin of 40 per cent.

The loan is required in connection with the completion of a contract, and will be repaid at maturity. Mr Y. Z., whose means are fully £15,000, is willing to have the shares transferred to our name, and to sign the usual Letter of Hypothecation. I recommend that the loan be granted.

3. Write a letter to your customer in terms of the H.O. reply.

Answer

DEAR SIR,—Your application for a loan of £500 for three months against the securities mentioned has been agreed to:

Please hand us the certificates, and call here at your convenience to sign the relative transfers and the usual Letter of Hypothecation.

4. Write a reply to an inquiry as to whether your customer, A. B. (whose average balance on current account with you is £100, and who has £1000 on interest receipt) is good as sole surety for £500.

Answer

DEAR SIR,—In reply to your inquiry *re* Mr A. B., I beg to state that he is a man of considerable means, who may be regarded as quite good as sole surety for £500.

BRANCH SUPERVISION

1. Would an Agent be justified in receiving bills from a customer to be held over undiscounted on the understanding that, in the event of a rise in the Bank of England rate being announced, they are then to be discounted at the old rate? If not, why?

Answer

Such action on the part of an Agent would be a direct violation of a special agreement amongst the banks.

When an Agent receives notice of a change in the Bank of England rate, it is his duty immediately (pending receipt of the official circular from Head Office) to commence charging discount at the rates applicable when bank rate last stood at the same figure as that presently announced.

2. State the general duties of an Agent and of an Accountant.

Answer

In an office where there are both an Agent and an Accountant, the Agent's duties include: transaction of business with customers, direction of correspondence, and general supervision of all that affects the Branch in its relation to outside parties.

The Accountant should be responsible for the conduct of the routine work of the office, and his supervision should extend to all matters of internal management.

3. What course should be adopted by an Agent to satisfy himself that the work in the Branch is accurately performed?

Answer

Besides exercising a general supervision over all the work at the Branch and keeping himself fully informed of all that transpires, the Agent should, in particular, check the cash weekly, and occasionally, in addition, at odd intervals; see that Bills and Deposit Receipts are balanced regularly; periodically inspect the Ledger and compare pass-books;

examine Returns, and, of course (where there is no Accountant) check daily the Teller's Cash Book from the vouchers and subsidiary books.

4. What information is it usual for an Inspector to come to the Branch provided with, at an inspection, and to what duty does he first direct his attention, and for what reason?

Answer

Before proceeding to inspect a branch, the Inspector provides himself with full information regarding all matters affecting the business of the branch; in particular, as regards the following items:—detailed reports on all obligants on Cash Credits, Overdrafts, Loans, and Bills; particulars of all securities held against advances; notes as to staff and premises; figures relating to progress of business; note of Charges; copies of Branch Returns; and matters raised in correspondence since last inspection.

The Inspector's attention is first directed to the checking of the Cash, Securities, Postages, and Stamped Forms, because it is through the manipulation of these that fraud may most easily be perpetrated. It is important that control of them should be obtained without opportunity being afforded for alteration or adjustment.

5. (a) How often should the cash on hand at the Branch be checked, and by whom?

(b) What in your opinion would constitute an efficient check on the postages at a Branch?

Answer

(a) The cash should be checked weekly, and, in addition, at irregular intervals without notice, by the Agent.

(b) The entries of letters in the Postage Book should be checked daily with the Letter Book; entries of sums granted for the purchase of stamps should be initialed by the Teller; and the book should be subjected to an independent weekly balance.

ADVANCES

1. Would a banker be safe in granting an advance against a delivery order for goods, if the goods were allowed to remain in the customer's stores, supposing him to be also a public storekeeper? If not, what must be done to complete the security?

Answer

Before the lender's title to the goods is complete, delivery, actual or constructive, must take place. Actual delivery is where the goods themselves are delivered: and constructive delivery is where the goods are in the hands of a third party,

and an order on that party is granted by the owner in favour of the lender. It is necessary that the order be intimated, and that the third party be an independent storekeeper, not the borrower or one in his employment. Hence, as delivery in neither of its forms has been accomplished, the banker would not have a complete title to the goods, and should take steps to have it effected in one or other of the above ways.

2. What do you understand by a first-class banking security, and what requirements should it fulfil?

Answer

A first-class banking security is one which is readily realisable, and not liable to sudden fluctuations in value. The completion of the title should be simple and expeditious and the expense of the transfer should not be heavy. From a banker's point of view, therefore, gilt-edged securities, and shares in leading joint-stock companies (provided a suitable margin is maintained) form the most satisfactory form of cover.

3. What are the proper steps for an Agent to take when one of the cautioners in a Cash Credit Bond intimates his desire to be freed from his obligation?

Answer

On receipt of such intimation the Agent must stop operations on the account, as the cautioner's liability is limited to the amount at debit of the account, plus interest as at the date of intimation. He will thereafter call for a rearrangement of the security.

4. Discuss the relative advantages of the different forms of security taken by a banker for an advance.

Answer

(a) A personal guarantee is one of the most suitable forms of security, provided the guarantor is undoubted for the amount and the bank is kept informed from time to time as to his financial position. Nothing could be simpler than the completion of the security, as all that is required is, that the guarantor sign a formal letter of guarantee, before two witnesses. Under the same category comes the Cash Credit Bond on personal security.

(b) Lending against marketable securities comprises a large part of a bank's business. Where the securities are of the first order, and a sufficient margin is maintained, the possibility of loss is practically *nil*.

The shares should be registered in the bank's name, and a letter of hypothecation taken, stipulating for the maintenance of a sufficient margin, and giving the bank a power of sale in the event of this not being complied with.

Thus if the worst comes to the worst the bank can always resort to a forced sale.

To prevent any questions as to ownership, in the event of death or bankruptcy of the customer, it is advisable that the banker completes his title at the outset.

(c) Loans against life policies are safe up to the amount of the surrender value. The security must be taken in the form of an assignation, and duly intimated to the insurance company. There is always the underlying risk, in respect of this class of security, that the policy may be reduced on account of some misstatement made by the proposer to the insurance company, at the time of insuring. The bank reserves to itself the discretionary right of surrendering policies.

(d) Loans against heritable property are satisfactory provided they are in the shape of first bonds, and there is a good reversion on the property. In no case should more than two-thirds of the value be advanced. The completion of the title is, however, cumbrous and expensive, and the security is more suitable for permanent advances than for temporary accommodation.

(e) Shipping documents are not, properly speaking, suitable subjects for a banking security unless supported by the credit of persons of standing.

(f) Delivery Orders, Warrant for Goods, etc., are good security when the necessary formalities have been complied with, such as intimation and insurance, but the nature of the goods represented by the documents must always be taken into consideration, and on no account should advances be made against goods of a perishable nature, unless supported by the guarantee of some person good for the obligation.

5. Analyse the following balance sheets, each showing an unsecured overdraft of £1000, and the same surplus of assets over liabilities. Which is the better balance sheet from a banker's point of view? Give reasons for your answer.

<i>Assets.</i>		<i>Liabilities.</i>	
Book Debts . . .	£5000	Acceptances . . .	£2000
Stock in Trade . . .	5000	Accounts due . . .	2000
Property (free) . . .	5000	Due to Bank, on overdraft . . .	1000
	£15,000		£5000
		Surplus £10,000	
<i>Assets.</i>		<i>Liabilities.</i>	
Book Debts . . .	£ 4000	Acceptances . . .	£15,000
Stock in Trade . . .	20,000	Accounts due . . .	4000
Property (free) . . .	6000	Overdraft . . .	1000
	£30,000		£20,000
		Surplus £10,000	

Answer

5. The first example of balance sheet is one which gives the banker no uneasiness. The soundness of the customer's position is undoubted. His liabilities represent the moderate proportion of one-third of his assets, and the latter are well distributed. While such a state of affairs exists this customer may safely be allowed to overdraw to the extent of £1000.

The second example does not convey the same assurance to the banker. Here the customer has liabilities equal to two-thirds of his assets, and they are all more or less of a pressing nature. His assets on the other hand are badly distributed, two-thirds of the whole being in stock. Suppose that a forced sale of the stock proved unavoidable; it is hardly likely that it will realise anything like £20,000. At the same time there is still a fair margin to come and go on, and the position revealed is by no means a dangerous one, but rather one that would suggest to a prudent banker the necessity for caution.

YEAR 1908**CORRESPONDENCE**

1. (a) Write a letter to a customer declining to allow him to overdraw his account against an assignation of his life policy and a deposit of share certificates.

(b) Give reasons for your reply.

Answer

(a) and (b) Dear Sir,—I regret that I cannot accede to your request for an advance of £500 against an assignation of your life policy for that amount and a deposit of share certificates—twenty shares of £10 each, £5 paid,—Co. Ltd.

I may explain that, as regards life policies, they can only be looked upon as security to the extent of their surrender value. Your policy has been in force for only two years, and therefore is, in itself, of no value as cover.

As to the share certificates, you are aware that when such security is taken by the bank, the shares are transferred to its name. In any case, however, the shares you offer are unsuitable as security, because they are not quoted, are not readily marketable, and there is further an unpaid liability in respect of them.

The bank are desirous to meet your wishes, and if you have anything further to offer in the way of cover—say the personal guarantee of a sufficient surety, with the life policy as collateral security—they will be glad to give the proposal their best consideration.

2. How would you arrange for establishing a credit abroad on behalf of a customer? Give form of letter.

Answer

A customer wishing to have a credit opened abroad on his behalf should either (a) deposit with the bank the amount of the credit required; or (b) provide sufficient security to cover the amount.

"To the —— Bank, New York.

"Please honour drafts drawn on us by our customer, Mr ——, said drafts to be at —— days' sight, and not to exceed £100 in any one week: this credit to expire twelve months after date hereof.

"We guarantee payment of all drafts drawn in accordance with the above instructions."

3. Write a letter to H. O. submitting for approval a proposal for an advance against life policies, and a deposit of titles of heritable property situated in England.

Answer

Mr A. B.—Proposed Advance

DEAR SIR,—I have pleasure in submitting to you an application by our good customer, Mr A. B., for an advance of £3000.

Mr A. B.'s clear means are fully £25,000. The present advance is desired to enable him to pay off the remaining bond over his house, which has been called up by trustees, and steady reduction of the advance in anticipated.

The security offered is:

(a) Life Policies, p. £5000 on life of Mr A. B. by —— Co., present surrender value, £1500.

(b) Deposit of Title Deeds of property (fully described in accompanying schedule), situate in Lancashire, and valued, as per report, at £3000.

I have no hesitation in recommending that the advance be granted; and I enclose herewith the policies and titles, in order that an assignation of the former and memorandum of deposit of the latter may be prepared.

4. Reply to above from H. O.

Answer

Mr A. B.—Proposed Advance

DEAR SIR,—In reply to your letter of yesterday's date, I have the pleasure to inform you that the proposed advance to Mr A. B. against the security mentioned, is agreed to. The necessary documents will be sent you for signature in a day or two.

BRANCH SUPERVISION

1. What points should an inspector take note of, in considering the sufficiency of securities held against advances ?

Answer

The general requirements of a good security are : That its value is certain ; that it is readily marketable ; affords ample cover ; and that the bank's title to it is complete.

In the case of personal guarantees, full and authentic information should be obtained regarding all sureties. Where the security is over heritable subjects, it should be seen that their value is sustained. Stock Exchange securities should be quoted, readily convertible, carry no liability, be valued at market prices, and a proper margin should be maintained. The bank's title is completed by registration. Life policies are to be looked upon as security only to the extent of the surrender value ; and the title is completed by intimated assigation.

2. How should the accuracy of the entries in the General Ledger be tested at an inspection ?

Answer

The posting of some entries should be checked with the totals of the Weekly Cash Book ; columns should be summed, balances proved, and totals and balances tested with the Branches General Ledger at Head Office.

3. Give a specimen Extract from the Discount Progressive Ledger, including opinions of the various drawers and acceptors.

Answer

Candidates should be familiar with the form in use in their own banks. (It is not a general practice to record opinions of parties to bills in this book.)

4. What books may a Teller at Branch keep in addition to his Cash Book ; what books ought not to be kept by him, and why ?

Answer

The Teller may keep any book other than the Weekly Cash Book and the Current Account Ledger.

The former should act as a check upon the Teller's Cash book. If the teller kept the Ledger, ample scope for fraud would be afforded.

5. What in your opinion is the best method for Head Office to adopt in supervising the Branch in regard to interest allowed and commission charged ?

Answer

The Weekly Returns from the Branch to Head Office should

contain particulars of interest allowed and commission charged. The correctness of these may be checked at Head Office, and omissions or miscalculations discovered. In the case of Deposit Receipts, the interest should be checked from the paid vouchers themselves.

ADVANCES

1. State what objection, if any, a banker has to a Cash Credit becoming a dead loan.

Answer

One of the original ideas, when Cash Credits were inaugurated, was that they would be a good means for circulating the bank's notes; hence if transactions on the account cease, one of the main objects of the system is defeated. Further, when Cash Credits are granted it is not expected that they will assume such a character, as the rate for inoperative advances for long periods is naturally higher than the C. A. rate. In any case dead loans are objectionable, as from their nature, they are not the class of business to be undertaken by banks whose chief object is to keep their resources in as liquid a form as possible.

2. Is it better for a bank to make advances on Cash Credits or by discounting Bills of Exchange?

Answer

From the point of view of diligence it is better for a bank to advance money by discounting Bills of Exchange, as in the event of the obligants failing to meet the bill at maturity, Summary Diligence is competent, and forms a cheap and summary form of proceeding. An additional advantage is that, in the event of his funds running low, a banker can more easily refill his coffers by restricting discounts, than by calling up advances.

When, however, an advance is intended to be more or less of a permanent nature a well-arranged Cash Credit is the more desirable form for the security to assume, as the bond is framed to the exclusion of the right of prescription, and is binding on representatives.

3. What is the special advantage of the Disposition *ex facie* absolute as constituting a valid security over heritable property for sums advanced to a customer? Mention disadvantages, if any.

Answer

The special advantage in taking an *ex facie* absolute Disposition over heritable property is that the security is good for sums already advanced, or for future advances. Some of

the disadvantages are, that the lender being in the position of proprietor cannot poind the moveables, and is saddled with the liabilities of ownership.

4. To what extent may a banker make advances with safety against Shares in an Incorporated or Joint-Stock Company and Life Policies? What steps does he require to take for the completion of the security in each case?

Answer

In the case of advances against the Shares in Joint-Stock Companies it is customary to stipulate for the maintenance of an ample margin, say 15 to 25 per cent., according to the nature of the security offered. The shares should be those of limited companies, and fully paid. To complete his title to the shares the banker must have them registered in the names of the bank's nominees.

Life Policies should be assigned to the bank and advances should not be made in excess of the surrender value. To complete the bank's title it is requisite that the assignation be intimated to the insurance company and their acknowledgment obtained.

5. A customer, on whose account you hold Bearer Bonds for safe custody, has an unauthorised overdraft with you. Would you be entitled to hold the bonds against it? If not, what must be done to render the security available?

Answer

If the bonds were lodged exclusively for safe custody, the banker's right of retention would be defeated, and thus it would not be competent for him to hold the bonds against the overdraft. To enable him to do so, he would require to get the customer to deliver up his safe custody receipt and sign a letter of hypothecation.

YEAR 1909

CORRESPONDENCE

1. The trustees on the estate of a lately deceased customer (at the credit of whose account there is a substantial balance) desire an advance in their names as such, for the purpose of paying Government duties and making other present disbursements pending realisation. Write a letter to Head Office submitting and recommending the proposal, and giving the information you think necessary.

Answer

Proposed Advance

DEAR SIR,—The trustees (Messrs ——) of the late Mr A. B.—at credit of whose account there is the sum of £600—desire to

be allowed to overdraw to the extent of £350 on an account to be opened in their names as trustees. This money is required for the payment of Government duties and other necessary disbursements, pending realisation of the estate, which amounts to £10,000. As the trustees are eminently respectable and trustworthy, I recommend that the advance be granted on their minute pledging the estate.

2. Assuming the above advance to have been authorised and granted, write a letter to the Agent in the Trust in reply to a request for the benefit of compensating interest.

Answer

DEAR SIR,—I have your letter requesting that compensating interest be allowed on the balance at credit of the late Mr A. B.'s account against the overdraft granted to the trustees. I have to point out, however, that by agreement amongst all the Scottish banks the granting of compensating interest in such cases is expressly prohibited.

With every desire to oblige you as far as possible, I regret I am unable to meet your wishes in this matter.

3. An opportunity having occurred towards the termination of the lease of the Branch premises of obtaining a more suitable office, write a letter to Head Office enumerating the grounds on which removal thereto would be considered advantageous.

Answer

Premises

DEAR SIR,—As you are aware, the lease of our premises here terminates at Whitsunday next. I desire to point out that there is at present in the market a property which, in my opinion, it would be greatly to the bank's advantage to purchase. I annex full particulars, from which you will see that with very little outlay beyond the purchase price we could acquire a central and commodious office. Looking to the situation of the property (we have long been handicapped in this respect) an increase in the bank's business might confidently be anticipated. I recommend the matter to your favourable consideration.

4. A. B. & Co., a firm of merchants, have a large unsecured advance at a Branch. A, the principal partner, whose means are in the business and represent the bulk of the capital, dies. Under his Trust Disposition his estate is left to his widow in liferent and his children in fee, the capital during the liferent to remain in the business. Write a letter to Head Office reporting the circumstances, indicating the effect, if any, on the bank's position, and suggesting a proposal by which, if necessary, their position may be protected, assuming accommodation to be still required.

Answer

DEAR SIR,—I regret to inform you of the death of Mr A., the principal partner of Messrs A., B., & Co. The firm's account is overdrawn £1000. Under Mr A.'s Trust Disposition his estate is left to his widow in liferent and his children in fee, the capital during the liferent to remain in the business.

I do not anticipate that the firm will suffer any check to their prosperity, but for the bank's protection I recommend that the guarantee of the widow and the children who are of age should be taken.

5. Write a letter to Head Office submitting reasons for recommending the concession of the special rates of discount in respect of a customer's London Bills.

Answer

DEAR SIR,—Mr A. B. has applied for the privilege of having his London discounts passed at the special rates. The average of these in currency is £20,000, and they are all trade bills drawn on first-class houses. The reports on acceptors have always been favourable, and the bills hitherto have invariably been taken up at maturity. Mr A. B.'s capital is £50,000. I have no hesitation in recommending that the privilege asked for be granted.

BRANCH SUPERVISION

1. What checks should be applied at an Inspection of a Branch towards verifying (a) the Current Accounts, (b) the Securities lodged for safe custody?

Answer

(a) For a thorough checking of the Current Accounts the following is the best procedure:—Balance Ledger; sum columns of accounts and prove balances; compare entries on "paid out" side with the paid cheques and examine these; check extensions of days, decimals, rates, and interest calculations; examine and compare all available pass-books; see that mandates and securities are in order.

(b) It should be seen that all the Securities shown in the Register as lodged are accounted for; that all the Securities on hand appear in the Register; that entries for lodgments and the recording of withdrawals are promptly attended to, and properly vouched by the responsible officers; that proper mandates and receipts for withdrawals since last inspection are held, and that dual control of the Securities is always maintained.

2. To ensure the bank's system of Book-keeping and checking being made effective, to what should an Agent in his personal supervision pay particular attention?

Answer

All that passes at the Branch should be under the close supervision of the Agent, his particular attention being directed to the daily audit of the Teller's Cash Book, and the weekly and periodical checking of the Cash; and it is advisable to compare occasionally customers' pass-books with the Ledger. It is important also that he should satisfy himself as to the accuracy of the Returns to Head Office.

3. What are the points in connection with a Bank Officer's private account which should have the special attention of an Inspector?

Answer

(a) The size of the balance : this should not be out of keeping with the Officer's means, and should consist of his own money only.

(b) The extent, nature and magnitude of the transactions : these also should be in accordance with the Officer's probable resources and requirements, and should reveal nothing exceptionable.

(c) Debtor balances should be fully secured and the occasion for them known.

(d) The interest calculations should be checked.

(e) Any exceptional feature should be inquired into.

4. A firm of wholesale Wine Merchants have considerable advances against parcels of whisky stored in various Distilleries and Warehouses, in respect of which they have numerous transactions. Frame a method for the accurate and systematic recording of the security.

Answer

Transactions should be recorded in Progressive Ledger form. They should be classified under headings opened for each store, and particulars of quantities stored and withdrawn should be entered, the balances being shown.

ADVANCES

1. What is the effect of a Guarantee framed to cover ultimate loss? Illustrate fully by an example the danger of allowing an overdraft beyond the Credit where the document has not been so framed.

Answer

A guarantee framed to cover ultimate loss has the effect of binding the surety to make good any balance at debit of the account, after the bank has exhausted all other sources of repayment. Thus in the event of a customer becoming bankrupt the bank will rank on his estate and draw a dividend, and then call upon the guarantor for implement of his obliga-

tion. Such guarantees are, as a rule, limited in amount like ordinary guarantees.

Where a banker advances money in excess of a guarantee not so framed, the excess overdraft is unsecured, and, in the event of bankruptcy of his customer, he can only, in respect of the excess, claim on the bankrupt's estate. Suppose he allowed A to overdraw to the extent of £120 against a letter of guarantee for £100 by B; B has the right at any time to step in and pay up the amount due under his obligation, which cannot exceed £100, and himself rank on A's estate in respect of such payment. The bank would thus be left with an uncovered overdraft of £20, for payment of which they could look only to the estate of the insolvent debtor.

2. State shortly the considerations to be kept in view when granting advances against the following :—

- (a) Shipping Documents.
- (b) A reversion over heritable property.
- (c) Produce Warrants.
- (d) Life Policies.

Answer

The principal points to be kept in view in granting advances against :

(a) Shipping Documents, are : The credit of the parties to the bill of lading, the insurance of the goods, the fact that the three parts of the bill are duly accounted for, and the value of the cargo is as represented by the bill of lading.

The bill must be stamped with a sixpenny stamp, and the holder must satisfy himself that the consignor has no right of stoppage *in transitu* of the goods.

Mortgages over ships require to be registered at the ship's port of registry.

(b) When advancing against heritable property reversion, it is advisable to get an independent valuation of the property by an experienced valuator ; to ascertain the assessed rental, and the worth of the subjects in the event of a forced sale. Further, the total bonds should not, under any circumstances, exceed two-thirds of the value of the property, and it should be ascertained that the margin of clear rental is sufficient to meet all charges against the property, which should be insured in the bank's favour. The title deeds should be subjected to a careful scrutiny by the bank's legal advisers.

(c) Produce Warrants. The warrants require to be duly intimated to the storekeeper in whose store the goods are lodged, and his acknowledgment obtained. The produce should be insured in the bank's favour. Goods that are of a perishable nature should be avoided as subjects of security.

(d) With regard to Life Policies, the security is obtained by

means of an assignation. An assignation requires to be intimated to the Insurance Company and their acknowledgment obtained. The bank should restrict the advance to the amount of the surrender value of the policies, and where possible obtain an independent guarantee for the payment of the interest on the account, and the premiums as they fall due.

3. A customer desires an overdraft against a Deposit Receipt with the same Office made out in his own and his wife's names, payable to either or survivor. What precautions should be taken for the bank's complete protection?

Answer

The bank would not be safe to advance against a Deposit Receipt in such terms unless it got delivery of the receipt, endorsed by both parties, together with a letter signed by both, descriptive of the transaction; this letter should bear a sixpenny stamp.

4. What rules should be observed by a banker in making advances to registered Companies, and in dealing with bills signed by or on behalf of such Companies?

Answer

Before making advances to a limited company the bank should examine its Memorandum and Articles of Association, and ascertain whether it has power to borrow money and issue negotiable documents. Moreover the bank should procure an excerpt minute of the directors authorising the advances and intimating the mode of signing bills and cheques, and the names of the parties authorised to sign them.

5. A, who is a Guarantor in respect of an advance made to B, gives notice to the bank that he wishes to withdraw from his liability. How, if at all, is the position thereafter affected by B (a) paying in to the credit of the account, and (b) drawing and cashing cheques on it?

Answer

After receipt of intimation from a guarantor to the effect that he wishes to withdraw from the obligation:

(a) Any sums paid in to the credit of the account go in reduction of the guarantor's liability, and

(b) As the guarantor's liability is restricted to the amount of the debtor balance plus interest as at the date of intimation, he is not bound for further drawings on the account. Therefore, on receipt of intimation of withdrawal on the part of an obligant, the bank should suspend operations on the account, opening, if necessary, a new account for current operations.

YEAR 1910**CORRESPONDENCE**

1. Write a letter to Head Office intimating the death of one of the two Cautioners on a Cash Credit Bond, and suggesting the terms of a rearrangement of the security.

Answer

Cash Credit Account—Mr. C. D.

DEAR SIR,—I regret to intimate the death of Mr Y. Z., joint surety with Mr A. B. on the Cash Credit Bond p. £500 on account of Mr C. D.

Mr A. B. desires to undertake full liability for this obligation ; and, as he is worth fully £20,000 and quite undoubted, I recommend that he be accepted as sole surety.

I suggest that a minute be endorsed on the bond—the bank formally releasing the representatives of Mr Y. Z., and Mr A. B. signifying his consent to assume liability as sole cautioner.

2. A customer intends visiting a certain town in which there is a Branch of the bank with which he keeps an account and desires to have drawing facilities to the extent of £100. Write a letter to the Branch authorising the payment of his cheques to that amount and bespeaking their services in his favour.

Answer

DEAR SIR,—Our good customer, Mr A. B., is to visit your town shortly, and I shall be obliged by your affording him any desired facilities. Please honour his cheques drawn on this office during the next two months to the extent of £100 in all.

For your guidance, a specimen of Mr A. B.'s signature is appended.

3. Write a letter to Head Office reporting the circumstances under which payment of a Deposit Receipt in name of a deceased customer has been applied for without Confirmation.

Answer

Deposit Receipt—Mr A. B.

DEAR SIR,—There is at this Branch a Deposit Receipt p. £50 in favour of Mr A. B., recently deceased, whose only son (and next-of-kin) has applied for payment of the Deposit Receipt, stating that the estate has not been confirmed to. The Deposit Receipt represents the deceased's entire means, and I recommend that in this case—the whole estate being under £100—production of Confirmation be dispensed with, and that the

Deposit Receipt be paid on the granting of the usual Discharge and Guarantee by the son, Mr C. D. (who is well known to me), and our wealthy customer, Mr E. F.

4. A letter to the applicant in terms of their reply.

Answer

DEAR SIR,—I have the pleasure to inform you that my Head Office has sanctioned payment to you of the Deposit Receipt p. £50 in name of your late father. I shall be glad if you and Mr E. F. will arrange to call here at your convenience to sign the necessary Discharge.

5. A customer wishes to establish a Credit for payment against full shipping documents of the drafts of a correspondent in Canada from whom he is buying consignments of apples, to the extent of 500 barrels at 12s. per barrel. Write a letter to your London Office conveying the necessary instructions.

Answer

DEAR SIR,—We shall be obliged if you will pay on behalf of our customer, Mr A. B., drafts drawn on you by Mr C. D., of Vancouver, B. C., against full shipping documents for consignments of apples to the extent of 500 barrels at 12s. per barrel = £300. The drafts will be drawn payable on demand, and the documents are to be delivered to you on payment.

This Credit is to remain open for six months from date hereof.

BRANCH SUPERVISION

1. What Returns in connection with the Current Accounts would you consider necessary from a Branch for the purposes of Head Office supervision?

Answer

Weekly.—State, showing either detailed transactions or simply daily totals, and Report on Overdrafts, showing maximum balances, present overdrafts, and particulars of security held.

Half Yearly.—Full List of Accounts, showing balances, interest, and extent of operations; Report on Overdrafts, of a fuller nature than the Weekly Report.

2. State a method by which an annual test may be made of the accuracy of the interest paid on Deposit Receipts.

Answer

In some banks the following formula is used :—

Interest accrued at last balance,
+ Interest on daily amount of Deposit Receipts outstanding (including Sundays and holidays),
– Interest accrued at this balance,
= Interest paid during the year.

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This will give a result slightly in excess of the correct amount, owing to deposits in some cases lying for less than the month necessary to qualify for interest.

3. What points should have the attention of an Inspector in regard to (a) the Branch Charges Account ; (b) the custody of the various keys ?

Answer

(a) An analysis of the account should reveal no unnecessary or unauthorised expenditure, and payments for Incidents and Postages should be duly accounted for.

(b) The keys should be so distributed that the presence of two officers is necessary before access can be gained to the Cash and Securities.

4. State a formula by which an estimate of a Branch's profits may be obtained, and the considerations upon which it is based.

Answer

Besides taking account of the local Income (interest, commission, etc.) and Expenditure (interest, charges, etc.), offices whose deposits are in excess of their money lent are entitled to credit for the excess at the rate which it has earned elsewhere, under deduction of expenses ; and offices lending in excess of their deposits should be charged at a similar rate for such excess.

In arriving at the net lending rate of the bank's money, it should be noted that a portion of the charges incurred at Head Office—*e.g.* for Branch Supervision—are applicable to the Branches in proportion to the extent of their business ; that the cost of maintaining reserves is similarly applicable ; and that there are profits arising from the balances of accounts (other than Proprietors' Funds) not localised—such as Note Circulation, Drafts, Cheques Remitted, and Correspondents' Accounts—which might be applied to the cost of maintenance of reserves.

Even after taking account of these considerations, the following form of Branch Profit and Loss Account is based on the assumption that the agency of a branch for other offices is mutual :—

Dr.	Cr.
To Local Charges	By Interest, etc., received at the Branch
„ Proportion of Head Office Charges	„ Allowance for Excess (if any) of Deposits over Loans
„ Cost of Cash Reserves	
„ Interest paid at the Branch	
„ Bad Debts	
„ Charge for Excess (if any) of Loans over deposits.	

ADVANCES

1. What are the rules which should be observed in granting advances against Stock Exchange Securities ?

Answer

In granting advances against Stock Exchange Securities it is requisite that a good margin be maintained and that the shares be in sound concerns, limited and fully paid. Where the shares are not fully paid an amount equal to the uncalled liability should be placed on Deposit Receipt. The shares should be officially quoted, and of a readily marketable description. They must be registered in favour of the bank's nominees (except in the case of Bearer Bonds, delivery of which is sufficient) ; and a Letter of Hypothecation should be taken, pledging the shares, undertaking to maintain a sufficient margin, and giving the bank full powers of sale in the event of failure to do so.

2. State generally the objections to taking a mortgage on a ship as security for an advance. Assuming that such security has been accepted, what precautions should be taken ?

Answer

From a banker's point of view a ship is not a first class security subject, as in the event of the failure of the borrower the bank is liable at any time to have the vessel left on its hands, with the chances of sale probably somewhat remote.

If the bank elects to enter into possession it is confronted with all the risks and responsibilities incumbent on shippers, and if the ship is allowed to lie up it rapidly deteriorates. If a mortgage is taken it must be in the form prescribed in the Merchant Shipping Act, 1894, and must be registered at the ship's port of registry. The registrar should certify the date and hour of registration, as mortgages are preferable, not according to their dates, but according to their dates of registration.

The mortgage should be accompanied by a policy of insurance.

3. What are the considerations to be weighed from a banker's point of view in estimating the value of a security in the shape of heritable property for an advance ?

Answer

Before advancing on the security of heritable property the banker should take into consideration the following particulars : an independent valuation of the subjects should be obtained from an experienced valuator ; the total amount of the bonds already affecting the property should be ascertained, as well as the assessed rental and the value of the subjects in the event of a forced sale. Under no circumstances should he advance

more than two-thirds of the value of the property, and he should ascertain that the clear rental from the subjects is sufficient to meet all charges against it. The property should be insured in the bank's favour, and the titles should be examined and the searches brought down to date.

4. Whether is it more for the interest of a banker to discount long bills or short bills? Give reasons for your answer.

Answer

The credit of the parties on both classes of bills being equally good, a banker should invest part of his funds in each class of paper. The advantages of short bills are, that during a short period the credit of the parties on the bills is less subject to change; the banker turns over his money oftener, thereby accommodating a greater number of his customers, and the bills are more likely to be *bona fide* trade transactions. In the event of the bank's funds running low, a larger proportion of the short bills will mature each day than if the same funds were employed in the discount of long bills, and thus the banker has greater opportunities of replenishing his cash balances.

As a general rule long bills represent accommodation transactions and therefore there is not the security, as in the case of the short bills, of the goods they represent. On the other hand long bills afford a more profitable form of investment owing to the higher rate of interest exigible.

5. What advances are characteristic of :

- (a) An Agricultural Branch,
- (b) A Seaport Branch,

and in dealing with those pertaining to the former, what considerations have to be kept in view?

Answer

(a) At an Agricultural Branch the chief advances will be to farmers and landowners, and the tradespeople who deal with them. The advances are usually for lengthened periods, say from seed-time till harvest, during which time no funds are coming in, and the farmer has to find capital to maintain the farm and servants. Or again the advances may be required till cattle are sold, or the farmer may be holding over his crop for better prices. These long advances are not to be encouraged, unless the means of the borrower are large, as a bad harvest or an outbreak of disease may prove disastrous to those concerned.

(b) The chief advances at a seaport town will be on the security of Bills of Lading, Dock Warrants, etc., and by way of mortgages over ships. Bills both inland and foreign will also be largely dealt in.

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